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Executives warned of proxy vote liability

By Marcia Parker and Marlene Givant

WASHINGTON — Corporate executives who direct the voting of pension fund proxies might be assuming liability for their outside managers' day-to-day investment decisions, warned two top officials of the Labor Department's Pension and Welfare Benefits Administration.

In addition, money managers and bank trustees who allow corporate executives to vote fund shares without explicit authority from the trust agreement are not relieved of their fiduciary liability, the officials said on separate occasions.

The warnings came at the end of a proxy season in which at least 60 companies waged aggressive campaigns against proposals designed to rescind or put to a vote shareholder rights' plans adopted by the companies without shareholder approval (*Pensions & Investment Age*, March 9). Shareholders rights' plans are often known as "poison pills" because they are designed to make unfriendly takeover bids difficult.

In some of the proxy solicitation campaigns, some corporate chief executive officers asked other chief executives to urge their pension fund managers to vote the pension fund proxies with management.

The Department of Labor is researching how pension plans handle proxy voting and whether institutional investors are contacted by corporations attempting to influence proxy votes. The department is "looking for a good case" to test current practices, said David Walker, deputy assistant secretary of labor.

Mr. Walker also warned that if an investment manager follows the direction of a third party — the corporate client — on a proxy vote, neither the manager nor the company is "off the hook" with regard to fiduciary responsibilities, unless the pension plan's trust agreement specifically gives

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Labor's David Walker is seeking a proxy test case.

Pensions & Investment Age

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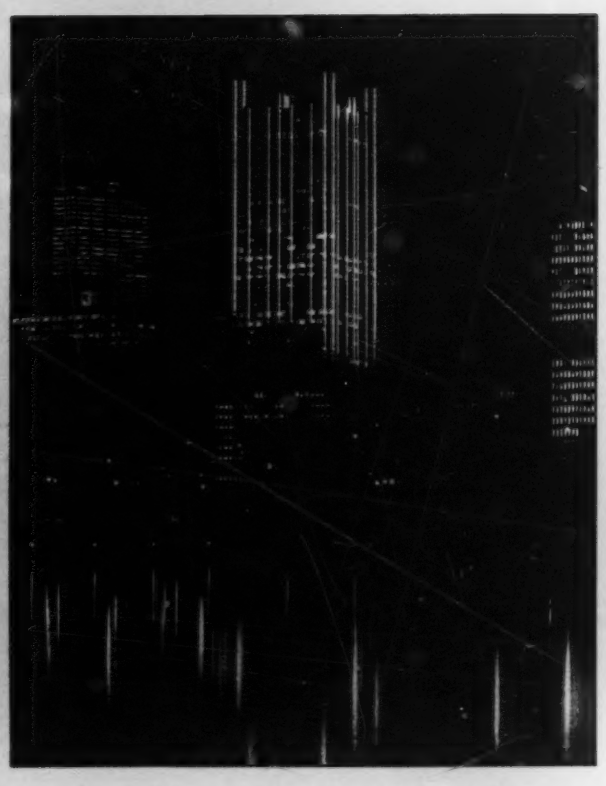

CASH MANAGEMENT: PPG Industries, whose headquarters is shown above, is one of six companies in a pilot program using the automated clearinghouse to pay trading partners electronically — Page 27.

CORPORATE FINANCE: Philips International BV of Eindhoven, the Netherlands, attracted the interest of U.S. corporate officials by planning to use a number of regional syndicates for its 20 million share, $500 million global stock offering — Page 43.

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McKesson leads move to drop annual reports

By Barry B. Burr

At least one major corporation — McKesson Corp., San Francisco — is abolishing its annual report, and others are considering following suit.

McKesson, backed by the Securities and Exchange Commission, will become the first to kill its annual report as a means of disclosing its financial statements.

The sharp change in reporting to shareholders, initially advanced by General Motors Corp., Detroit, and the Financial Executives Institute, appears likely to be adopted by other companies, including GM and Walt Disney Productions, Burbank, Calif.

Executives interviewed pointed out the impetus for the change is to improve readability of company reports to shareholders and to save money on publishing a glossy annual report.

Disney Controller Bruce F. Johnson said his company could scrap its annual report this fall. "We're giving serious consideration to it as we're asking other FEI companies to," said Mr. Johnson of the new reporting concept.

"A lot of (other companies) are thinking of doing it," added Eugene M. Flegm, GM's assistant controller.

Some companies might avoid producing even a summary report and provide only a proxy and a 10-K, he added.

McKesson in June will turn its glossy annual report into a summary more freely discussing the company's past and outlook with abbreviated financial statements, while disclosing its complete financial details in the tissue paper-like proxy statement.

Unlike GM and Disney, McKesson wasn't involved in the FEI project to simplify reporting, noted Alan Seelanfreund, executive vice president and chief financial officer for the drug and beverage distributing company.

"We looked at that (FEI project) and thought it made sense," Mr. Seelanfreund said.

McKesson's fiscal year ended March 31. Mr. Seelanfreund said the company plans to send out its new summary report together with the proxy to shareholders June 15.

A proposal to the SEC from GM in December suggested a reporting change similar to that McKesson will adopt and Disney is considering.

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TI fund does leaseback

By John Covaleski

Texas Instruments Inc., raising cash to increase its production capacity, has arranged a sale-leaseback of a 115-acre tract the company owns with its $750 million pension fund.

Under the pension fund's $34.3 million purchase, which was approved by the Department of Labor, TI will lease the tract in Plano, a Dallas suburb, back from the pension fund for a period of up to 10 years or until the fund terminates the lease to sell the tract.

The company has agreed to lease the property for 10% of the sales price annually, or $3.43 million per year, and pay all property taxes and utility charges.

The company also will pay the pension fund any difference between the $34.3 million purchase price and either the property's market value after the lease ex-

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The Rennerant Range in Plano, Texas, with a radar testing tower and offices, is the subject of a sale-leaseback by Texas Instruments.

Restructuring slashes assets

By Fred Williams

DALLAS — The restructuring of Diamond Shamrock Corp. into two companies following an unsuccessful takeover attempt has cut total employee benefit assets to $176 million from $256 million and pension assets to $123 million from $190 million near the end of 1986.

The takeover attempt by a group of investors led by T. Boone Pickens started in December and ended in March with a cash tender offer by the company for 20 million outstanding shares at $17 per share (vs. $15 per share from the Pickens group). It resulted in the spinoff April 30 of the Shamrock refining and marketing unit and the replacement of Shamrock's chairman and chief executive officer.

Diamond Shamrock changed its name this month to Maxus Energy Corp., Dallas; the refining and marketing subsidiary became Diamond Shamrock R&M Inc., San Antonio, Texas.

The restructuring also prompted the termination of five defined benefit plans.

Internal manager John Ring, director of pension investments at Diamond Shamrock, will retain that post with Maxus — managing Maxus' $112 million in pension assets — and will manage Diamond Shamrock R&M's $11 million in pension assets as well.

Although Mr. Ring's office managed about $256 million in employee benefit assets, that amount has dropped to about $176 million since the restructuring, including the assets of Diamond Shamrock R&M, he said. The assets dropped by the $80 million that was paid to Aetna Life and Casualty Co. to purchase annuities for participants in the five terminated plans.

Although the plans were "fully funded" at the time they were terminated, said Mr. Ring, there will be no asset reversions resulting from the action.

"The details are still in the process of being worked out, but any surplus will remain in the trust," he said. "My group will continue to manage their (Diamond Shamrock R&M) pension and savings plan assets. They will become a client. We have a contract with them just as with any investment manager with a client company," said Mr. Ring.

The decision to continue using the Maxus investment management service was made by Diamond Shamrock R&M, said Mr. Ring. "It gives them an opportunity to confront their principal problem, which is to set up what was a division into a complete operating company," he said. "They know the assets will be managed as they have been and have some continuity of management. If they decide to change they can make that decision in the future. Right now they have a full plate to take care of."

Robert C. Becker, vice president and treasurer of Diamond Shamrock R&M, said he has no immediate plans to seek outside investment management services for the plan.

"If we didn't trust him to run the plan, we wouldn't have stayed with him. John has done an excellent job.

John Ring will manage assets of companies formed in the Diamond Shamrock restructuring.

"We don't plan to do anything with regard to the pension plan until at least the first quarter of next year."

Mr. Becker said Diamond Shamrock R&M is ending its approximately $17.5 million employee savings plan to institute an employee stock ownership program. He said methods of distributing assets from the savings plan are being reviewed.

"That plan will be terminated and distributions made either to employees or some other alternative such as an (individual retirement account) rollover or ESOP rollover. It hasn't been decided yet," he said.

Mr. Ring declined to discuss the reasoning behind the termination of the five defined benefit plans in January. But sources said the terminations coincided with the Pickens group's effort to acquire Diamond Shamrock, and management probably wanted to put any surplus assets out of reach.

The remaining $123 million in pension assets are for the Maxus plan, which covers 2,500 employees, and a small portion for the former Diamond Shamrock chemical unit that was sold last year

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Turnaround due?

Oil, gas exploration deals grow

By Fred Williams

Exploration programs, the riskiest investments in the oil and natural gas business, are gaining acceptance by pension fund officials and investment specialists who anticipate healthy returns for investors with long-term investment horizons.

Most experts believe the oil and gas market hit bottom in 1986 and prices, particularly gas prices, are poised for a spectacular recovery beginning in the next few months.

The resulting ground-floor opportunity for savvy direct oil field plays has prompted several pension funds to put assets into exploration and natural gas development programs. But these investments have yet to capture widespread interest in the pension industry.

Among the multiplayer deals that have captured tax-exempt money:

- Smith Offshore Exploration Co., Houston, launched a $145 million natural gas exploration deal involving seven tax-exempt investors — Harvard University, Massachusetts Pension Reserves Investment Trust, Yale University, Wellesley College, Duke University, University of North Carolina and the Kamehameha Schools/Bishop Estate of Hawaii. (*Pensions & Investment Age*, April 20.)
- Investment Advisers Inc., Minneapolis, completed a $10 million natural gas partnership last year involving investments from Gustavus Adolphus College, the Minneapolis Police Relief Association, Minneapolis Employees' Retirement Fund, Twin City Iron Workers Local 512, and Twin City Carpenters Retirement Fund (*P&I Age*, Jan. 12).

Meanwhile, a number of new deals are expected this year or are on the market, including offerings from Apache Petroleum Co., Minneapolis; Lawrence Energy Associates Inc. Boston; LANGASCO, Pittsburgh; and Merrico Resources Inc., Ardmore, Okla. American Energy Reserve Consultants, Houston, is in the final stages of a $50 million natural gas program involving pension fund investments.

Faced with all the new deals, pension fund executives are taking both an active and a wait-and-see approach to oil and gas investing. But few of those with existing investments are negative about the market's future.

David Norris, director-retirement funds at Boise Cascade Corp., Boise, Idaho, said his fund invested an undisclosed amount in the American Gas and Oil Investors' third program, AmGO III, in 1986. AmGO III closed with $17 million.

AmGO is a private placement limited partnership with First Reserve Corp., Greenwich, Conn., as general partner. Boise Cascade is also a participant in AmGO I.

"At the time we made the decision, we were looking at a market turn and we felt there was substantial upside potential," said Mr. Norris. "If you believe energy markets are cyclical, we made the commitment when it looked like we were at the bottom in petroleum prices.

"When you think about where energy costs are going, you are looking at some healthy returns in the future.

"We are seven years into the 1980s from those days in 1980-'81 when a lot of people made investments in oil and gas and got burned. I'm not an expert on gas prices, but our sense is that demand can certainly get to the place where we will have a correction in gas prices, which will make a lot of us smile."

Manville Corp., Denver, within the past month put $4 million into a J.P. Morgan Investment Management Inc. pooled oil and gas fund bringing its total investment to $23 million of a $30 million commitment to that fund.

C.F. Lemons, manager-pension and thrift funds, said Manville will fulfill existing commitments but isn't seeking new "illiquid investments" because it is reorganizing under the protection of Chapter 11 of the Bankruptcy Code.

Roger Wohlert, assistant treasurer-corporate finance at Southwestern Bell Corp., St. Louis, said the company's fund boosted its investment in producing properties through InterFirst Bank Dallas to $28 million as of March 31 from $15 million in February 1985.

"I think the outlook is now better than it was six months ago. We aren't seeing a lot of bargains, though. People are still paying some high prices," he said.

Southwestern Bell is committed to oil and gas and "we think through the longer term it will be a good investment," he said.

David Bullett, vice president-securities with the Teachers Insurance and Annuity Association — College Retirement Equities Fund, New York, which has more than $200 million in oil and gas

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AAFES cuts back real estate

By Fred Williams

DALLAS — The nearly $1.2 billion pension fund of the Army & Air Force Exchange Service, Dallas, is de-emphasizing equity real estate investments because of anticipated lower long-range returns and is increasing international and domestic equity index investments.

Ken Weaver, assistant comptroller-insurance, said AAFES officials hired State Street Bank and Trust Co., Boston, to manage a $25 million Morgan Stanley Capital International Europe Australia Far East index fund, and gave $12.5 million each to existing active international equity managers Morgan Grenfell Investment Services Ltd., New York, and Citicorp Investment Management, London. The additional allocations bring Morgan Grenfell's assets under management for AAFES to about $42.5 million and Citicorp's to about $46.5 million.

In addition, $100 million will be placed in a Standard & Poor's 500 stock index fund with Wells Fargo Investment Advisors, San Francisco.

Mr. Weaver said the AAFES pension fund will reduce its current real estate allocation of approximately 8.4% of total assets to about 3% following an asset allocation study by Wyatt Asset Services Inc., New York.

"No new money will be going into real estate, and we will begin drawing our real estate position down in line with the asset/liability study," he said.

Mr. Weaver said real estate investments have not produced the returns AAFES officials need to continue to provide automatic cost-of-living adjustments for retirees.

"We have an aggressive plan with automatic cost-of-living allowances. Real estate has provided very good fund diversification, but not the good returns we need for our plan. We've had some decent returns in real estate:

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The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

P&I Age April indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	−0.9	20.29	26.53
Russell 3000	−1.68	18.55	21.62
Ryan Index	−3.02	−2.70	1.99
Shearson Lehman Gov't./Corp.	−2.66	−1.22	4.75

Source: Rogers, Casey and Barksdale Inc., and Frank Russell.

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International assets on the move

United Kingdom benefits from shift

By Marlene Givant

International money managers, believing the Japanese market is overvalued, are shifting to U.K. stocks the assets previously invested in Japan.

During the first quarter of 1987, the median non-U.S. equity portfolio was invested 34.3% in Japan vs. 36.1% during the last quarter of 1986. In the same period, the allocation to the United Kingdom increased 76%, to 18.5% from 10.5%, according to InterSec Research Corp., Stamford, Conn.

The median portfolio also increased its allocation to Pacific Basin markets other than Japan, to 10% from 8.4%, and lowered its allocation to continental Europe, to 30.6% from 38.1%.

The median portfolio was 1.6% invested in markets not included in the Morgan Stanley Capital International Europe Australia Far East index and 1.4% in cash. In the last quarter of 1986, the respective figures were 0.1% and 1.6%.

The median portfolio was overweighted compared with the index in all areas except Japan. The index's first-quarter weightings were 57% in Japan, 14.1% in the United Kingdom, about 5% in other Pacific Basin markets and 23.9% in the Continent. This compares with 53.9%, 13.2%, about 5% and 27.9%, respectively, in the previous quarter.

Among money managers reporting increased holdings in U.K. stocks were Schroder Capital Management International Inc., New York, which doubled its U.K. weighting during the first quarter to 20%; Kleinwort Benson International Investment Ltd., New York, which boosted its exposure to 23% from its 8% of last September; and Nomura Capital Management Inc., New York, up to 18% to 19% from 16%.

At the end of 1986, most managers expected strong U.K. economic growth in 1987 from high consumer demand. Some believed such growth would trigger increased demand for imports and severe selling of sterling, causing the government to raise interest rates.

When oil prices rose early this year, Schroder Capital's fear of such a development disappeared. Its executives believe other nations will spend more on oil imports, helping the heavily oil-driven economy to thrive and making Britain's economy more competitive. As an added bonus, the economy's growth will enhance government tax revenue, said Richard Foulkes, executive vice president. The firm runs nearly $2 billion for North American institutions, most of them tax exempt.

The expected re-election of Prime Minister Margaret Thatcher also is raising optimism, managers said.

"Declining interest rates, lower corporate taxation and strong (1986) GNP growth — at 3%, one of the more rapid rates in Europe — provided an unexpected boost to investor confidence in the U.K.," said Ian Lindsay, vice president of Kleinwort Benson, which runs $314 million, including $100 million for U.S. tax-exempt clients.

While nearly tripling its U.K. allocation, the firm trimmed its Japanese exposure to about 32% compared with 39% in October.

Kemper-Murray Johnstone International Inc., Chicago, however, underweighted the United Kingdom as of March 31 by supplementing equity exposure with a traded options program, said Michael Parlett, portfolio manager. Mr. Parlett said he thought the market would drop at the end of the quarter and it did, by 7%. Since then, the market has rebounded, swelling the firm's exposure to 15% from 11.3%.

The firm runs $334.9 million for U.S. tax-exempt clients.

Nomura Capital Management has reduced Japanese exposure relative to the index, but less so than most other managers.

"We do not change asset allocation substantially within a quar-

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Japan exposure cut 80%

By Marlene Givant

CLEVELAND — By sharply reducing its 80% exposure to Japan, the $290 million Cleveland-Cliffs Inc. pension fund here has cut its international assets nearly $20 million.

Since February, Cleveland-Cliffs' international equity holdings have dropped to less than 7% of assets or $20 million, including $16 million in Japan, from a peak of 13% of assets or $37.7 million, including $30 million in Japan.

Most of the money was shifted into intermediate-term corporate bonds, with a small amount going to domestic equities. The fund's overall asset mix is about 40% fixed income and 60% equities, with venture capital included in equities.

"We've brought international exposure down lately because the Japanese market has gotten a little frothy," said S. Sterling "Ted" McMillan III, vice chairman of Greenleaf Capital Management, Shaker Heights, Ohio, administrator of the fund. The firm manages $400 million, including the $290 million Cleveland-Cliffs fund.

Cleveland-Cliffs' fund had been internally managed by Mr. McMillan, until he left in October to join Greenleaf. He had worked at Cleveland-Cliffs for 21 years, most recently as vice president-finance.

A "frothy" Japanese market has S. Sterling McMillan reconsidering his allocation there.

Mr. McMillan didn't shift investment styles when he shifted jobs. Cleveland-Cliffs' approach seeks price inefficiencies, resulting in purchases of small, emerging growth and entrepreneurial company stocks, many of which are now overpriced in Japan, he said.

The managers really go out of their way to pick good stocks. In six years, they've spent 12 work weeks in the Far East dealing directly with local brokers. Europe is the next stop on their itinerary.

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New wave sweeping bond arena

By Marci Baker

Bond managers at Pacific Investment Management Co., Newport Beach, Calif., recently saw an opportunity to protect client portfolios from a potential increase in bond market volatility with a two-step hedging strategy using options and futures.

With options on Treasuries priced cheaply, the manager bought $300 million call options on Treasury futures in early April, effectively paying for the transaction through the simultaneous sale of Treasury futures.

A few weeks earlier, Bankers Trust Co. — Investment Management Group, New York, had bought cheaply priced puts on Treasury notes in an effort to hedge the downside risk on some of its pension accounts.

The transactions represent the new wave of fixed-income management, wherein bond managers make new, broader use of highly sophisticated investment vehicles to hedge portfolios.

Corporate pension funds, confronted with increased volatility in the bond market, and that volatility's impact on corporate balance sheets because of Financial Accounting Standards Board Statement 87, are seeking fixed-income managers who can reduce it.

The old-fashioned, "seat-of-the-pants" bond manager will not be able to prosper in the new environment, according to consultants and money managers. At the same time, they don't believe the traditional active bond manager will become obsolete.

GTE Corp., Stamford, Conn., for example, uses managers with and without hedging capabilities and, while GTE executives continue to look at such strategies for internal management, they have yet to use them.

"Over time, (derivative instruments)

Continued on page 61

Endowment locks gains with cash

NEW YORK — To lock in significant equity gains, officials of the $535 million Rockefeller University endowment have shifted 10% of assets to cash from equities since January.

Another 4% was moved to international and small-capitalization stocks from straight domestic equity.

The current asset mix is 56% equity, including 7.5% international and some small-cap stocks; 20% fixed income; 12% venture capital and small-cap stocks that once were venture capital investments; 10% cash and cash equivalents; and 2% miscellaneous investments, according to David Lyons, treasurer.

"There's a growing consensus that the market is high when you look at discounted dividend models.

"Both our managers and the finance committee have concluded we should protect our remarkable gains even if it means giving up another leg of the bull market," said Mr. Lyons.

"Economics alone don't drive this (market). There's psychology; a lot of the growth is liquidity. But I don't think the fund would derive anything in the future like we've seen in the past few years."

The fund's equity and fixed-income manager, Rockefeller & Co., New York, which manages much of the Rockefeller family money, is far more bullish on long-term bonds than equities.

"When they look into their crystal balls, they probably think long bonds now will outperform the (Standard & Poor's 400 stock index), according to risk-adjusted present value models. They usually look ahead eight years.

"They would probably rate a 30-year Treasury today as better than the S&P 400," said Mr. Lyons.

In addition, he said an investor could lock in 10% per year over 10 years by investing in so-called "battered bonds" such as Government National Mortgage Association securities.

"It's hard to believe you'll do that well in the stock market. We expect a downward correction. If long-term Treasury rates continue to rise as they have been in the past six weeks, the managers may shift more to fixed income from equities," he said.

"There's a lot of concern that equities will go down.

"We've had such remarkable gains we'd certainly like to hang on to a portion of it and not lose it all."

The fund returned 15.3% for the year ended Dec. 31, 16.7% compounded annually for the three years and 19.1% compounded annually for five years.

The median returns of Merrill Lynch Consulting Service's universe of total balanced portfolios of 1,200 tax-exempt funds were 14.6% for one year ended Dec. 31, 15.3% annualized for three years, and 17.3% annualized for five years.

The fund was slightly above the median in the Merrill index last year, and in the top quartile for three and five years, according to Ronald J. DiPrinzio, the endowment's consultant at Merrill.

Mr. Lyons said the fund always looks better in the longer term because in any given year, its managers "are positioning."

Returns are high largely because managers are free to jump at opportunities as they spring up, Mr. Lyons said.

"There are no formal restrictions. Our managers meet with the finance committee three times a year. There's a back-and-forth, an exchange. They can certainly move quickly on a day-to-day basis. That was absolutely imperative to their performance.

"Our managers are opportunistic. Sometimes things are quiet for a while, sometimes not. We're getting into interest rate-sensitive stocks . . . There's always a

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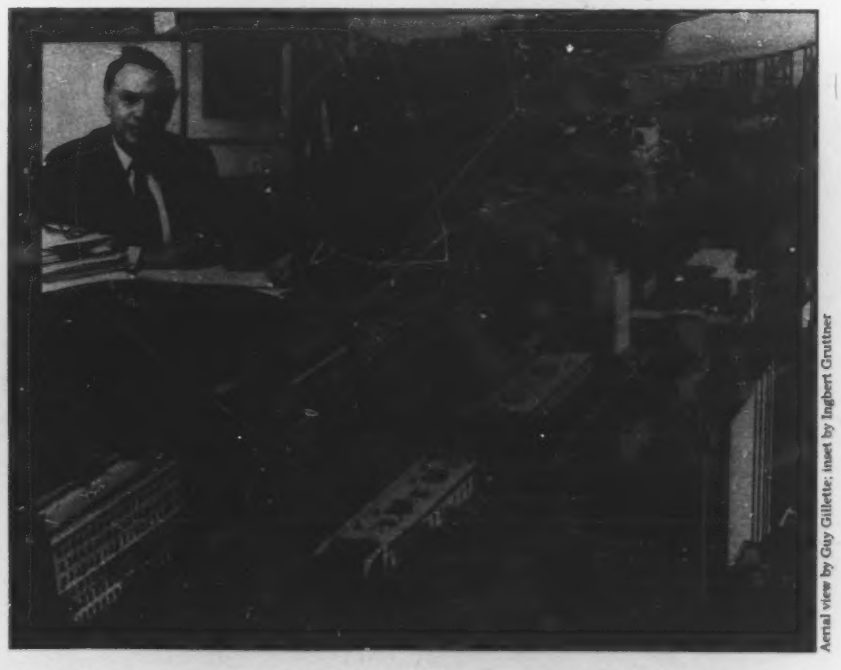

Aerial view by Guy Gillette; inset by Ingbert Grutzner

David Lyons, inset, of Rockefeller University's endowment, is shifting assets to cash and international from domestic equities to lock in gains.

PIPER

The statistical data are extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation published by Pensions & Investment Age. *PIPER details comparative performance data on equity and fixed-income funds at more than 200 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.*

Technology gives equities big edge

By Trudy Ring

Investment in growth stocks, particularly those in the technology sector, aided the top bank and insurance company pooled equity funds in periods ended March 31.

A leader in every period covered by the latest Pensions & Investments' Performance Evaluation Report was Sun Banks Inc., Orlando, Fla. It placed first in the one-, three- and five-year periods ended March 31, second in the 10-year period and tied for eighth in the latest quarter.

PIPER includes 302 pooled equity funds. All returns for periods longer than a year are compound annualized.

Anthony Gray, president of Sun Bank Investment Management, a subsidiary set up by Sun Banks last year, said technology was, by far, the equity fund's star performer in the latest quarter. "We made just obscene profits in technology," he said.

While Sun Banks and several other fund managers had stellar performance, median PIPER equity funds failed to beat the Standard & Poor's 500 stock index in every period of the report

For the year ended March 31, the median fund returned 21.1%, compared with 26.2% for the index. For the most recent quarter, the median fund's return was 19.1%, the S&P 500's, 21.4%.

For the three years ended March 31, the median fund had a compound annual return of 25.1%, while the index had 27.4%. Annualized returns for the five-year period were 24% for the PIPER median and 26.6% for the index; for the 10-year period, 16.3% for the median and 17% for the index.

Sun Banks, however, beat the index handily in every period. The pooled fund returned 40.6% for the year and 26.9% for the quarter. On a compound annual basis, it was up 43.7% for three years, 39.7% for five and 23.2% for 10.

The fund, with assets of $270 million, invests in large-capitalization, well-known companies with above-average growth rates. Managers make large allocations to sectors they favor, none to those they don't.

The fund has just a market weighting in technology, Mr. Gray said, but does not hold IBM Corp., so has numerous other technology names, such as **Digital Equipment Corp., Computer Associates International Inc.** and **Intel Corp.**

The fund's technology component returned 70% in the first quarter, Mr. Gray said. "When I say it had a great quarter, it really had a great quarter."

Food companies constitute another favored sector, with holdings including **CPC International Inc., Kraft Inc.** and **Quaker Oats Co.**

A sector not favored by the Sun Banks fund is energy; the fund has no energy holdings and has not had for several years, he said.

Security Pacific National Bank, Los Angeles, overweighted technology stocks in its Equity E fund, helping it to outstanding performance in the most recent year and quarter. The Equity E fund returned 34.1% for the year, ranking second to the Sun Banks fund, and 33.6% in the quarter, placing first.

Three stock purchase criteria are followed in managing the $25 million Equity E fund, according to William H. Duncan, managing director of Pacific Century Advisers, San Diego, the Security Pacific subsidiary that manages the fund. The stocks must be in companies with positive earnings momentum; must be outperforming the market or have rising relative strength; and must be in a group that is outperforming the market.

In technology, which definitely beat the market in the first quarter, the fund's holdings include **Tandem Computers Inc., Seagate Technology, Apple Computer Inc.** and **Digital Equipment.**

The fund also was overweighted

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High yields boost fixed-income pool

By Fred Williams

High-yield and high-coupon bond managers emerged as the top performers in Pensions & Investments' Performance Evaluation Report on bank and insurance company pooled fixed-income funds, with at least three of the top five funds for the quarter using high-yielding corporate securities of varying quality.

First Variable Life Insurance Co., Little Rock, Ark., topped the list for the three months ended March 31 with a return of 6.1% on its employee benefit fixed-income fund and came in third for the 12 months with 14.4%.

The median PIPER return for the quarter was 1.4%, and for the year, 8.4%. The Shearson Lehman Government/Corporate bond index returned 1.5% for the quarter and 8.1% for the 12 months, and the Salomon Brothers Long-term, High-grade Corporate Bond index, 1.9% and 10.2%. PIPER comprises 287 pooled fixed-income funds. Returns for longer than one year are compound annualized.

Rebecca Garner, vice president at Amherst Investment Management, which runs the First Variable Life D-2 fund, said the fund depends on high-yield, or junk bonds, but not exclusively.

"It's not just junk bonds," she said. "Some of our biggest gains were in nuclear utilities. We were able to buy single A bonds for about 45 cents on the dollar. I play sectors but we are very conservative for junk-bond players; I don't buy (leveraged buy-outs) and I don't buy blind pools. That's what people pay me to do.

"I don't play the current yield game; I play for total return. If you're looking for current yield this isn't where you belong. I don't buy and sell, I'm not a trader. I don't buy something just for the flip. When I buy I want to hold and when I sell it's either for credit reasons or it is overvalued. We rarely sell just to take a profit."

The First Variable portfolio, which contains about 30 issues and is broadly diversified by industry sectors, also did well for longer periods.

For three years ended March 31, the fund returned a compound annualized 18.4%, ranking in the top 20%, and for five years it returned 20.7%, ranking fifth in the PIPER universe.

Those figures compare with the median returns of 16.3% and 16.4%, for the respective periods in PIPER; the Shearson Lehman returns of 17.6% and 10.7%; and the Salomon returns of 23.5% and 17.5%.

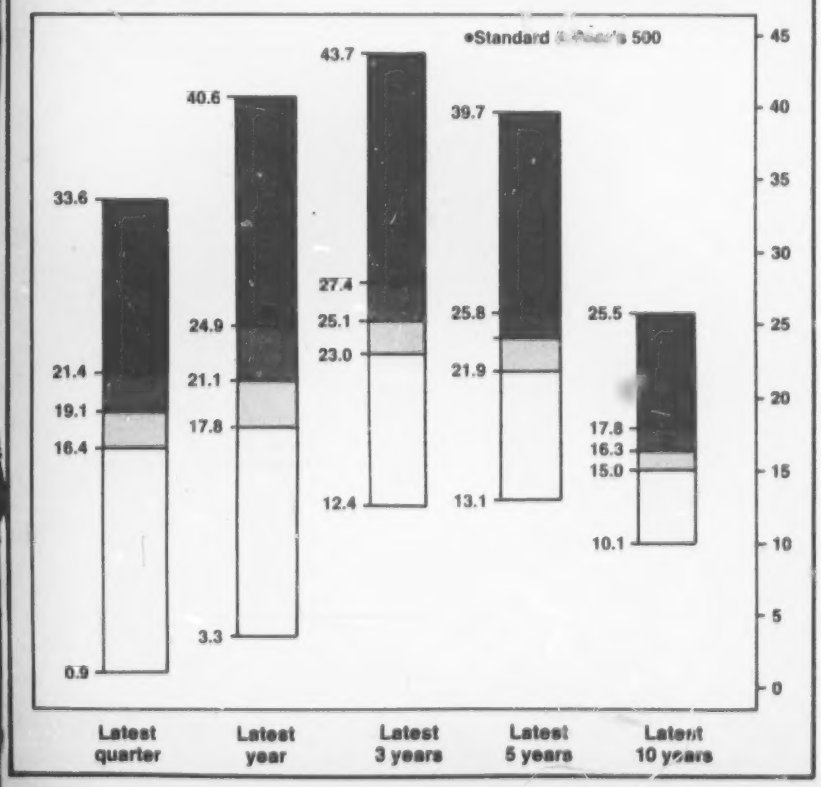
For the quarter, First Variable was followed by RCB Trust Co.,

Continued on page 24

Pooled equity funds of banks and insurance companies.

All periods ended March 31, 1987, and all figures, except latest quarter, are annualized total returns.

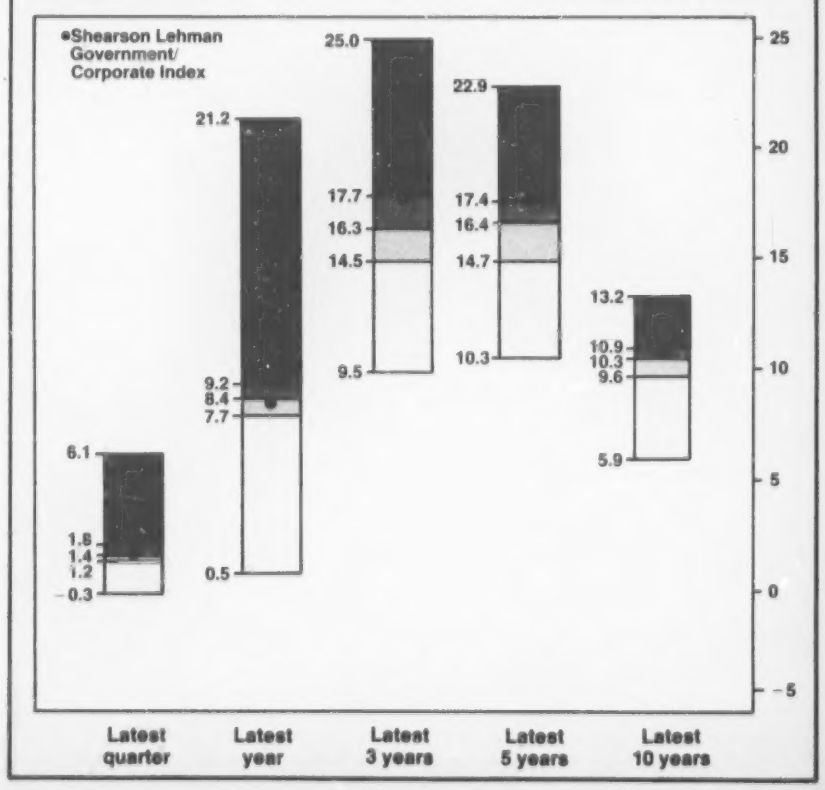
PIPER report compiled by Rogers, Casey & Barksdale Inc.



Pooled fixed-income funds of banks and insurance companies.

All periods ended March 31, 1987, and all figures, except latest quarter, are annualized total returns.

PIPER report compiled by Rogers, Casey & Barksdale Inc.



Top quartile commingled fixed-income funds

3-month returns

	%
First Variable Life, Ark.	6.1
RCB Trust Co. (Spec. Fi.), Conn.	5.1
Summit Trust Co., N.J.	4.5
Beverly Bank, Ill.	4.0
Colonial American Natl. (Inc.), Va.	3.8
Sentry Life (Acct. D), Wis.	3.7
Mutual of New York (Priv. place)	3.4
Delaware Trust Co. (EB Inc.), Del.	3.3
First Alabama, Mobile	3.2
First Interstate of Calif.	3.2
HT Investors, R.I.	3.0
Citicorp, N.Y.	3.0
First Wis. Natl., Madison	3.0
Bank of America, Calif.	2.9
Northern Central, Pa.	2.9
Trust Svcs of America, Calif.	2.8
Central Fidelity (EB Mgd.), Va.	2.7
Chase Manhattan (A), N.Y.	2.7
Wheeling Dollar Bank, W. Va.	2.7
New England Mutual, Mass.	2.6
Harris Trust, Ill.	2.6
Pacific Mutual, Calif.	2.6
Morgan Guaranty, N.Y.	2.6
BancTexas Dallas	2.6
United Mercantile (A), Calif.	2.5
Colorado National (Pooled)	2.4
First Interstate of Arizona	2.4
First of Neenah (Mtg.), Wis.	2.4
Principal Mutual Life, Iowa	2.4
First of Chicago, Ill.	2.4
United of Denver, Colo.	2.3
First Kentucky Trust (Ret. tr.)	2.2
IAA Trust Co. (Fund B), Ill.	2.2
Travelers (Acct. D), Conn.	2.1
Hawaiian Trust (Def.)	2.1
Lincoln Natl. Pens (Inc. Corp.), Ind.	2.1
Norstar Trust, N.Y.	2.1
Mercantile Safe, Md.	2.1
Mid-State Bancorp, Pa.	2.0
First Fidelity (Inter.), N.J.	2.0
Chase Manhattan (Sec. Mtg.), N.Y.	2.0
Massachusetts Mutual	2.0
Bank One, Ind.	1.9
Midlantic National, N.J.	1.9
Norwest Bank, Minn.	1.9
National Bank of Commerce, Neb.	1.9
Seafirst Bank, Wash.	1.9
Trustmark National, Miss.	1.9
Mutual of New York (Public)	1.9
Third National Nashville, Tenn.	1.9
First of Toledo, Ohio	1.9
General American (Acct. 9), Mo.	1.8
Signet Bank/Maryland (Short term)	1.8
First of Neenah (Long term), Wis.	1.8
Equitable Bank (Comm.), Md.	1.8
Maryland National	1.8
First City Natl., Houston	1.8
Minnesota Mutual (Acct. E)	1.8
TransAmerica Life (Acct. T-2)	1.8
First of Omaha (Fund C), Neb.	1.8
Chase Manhattan (Short-inter.)	1.8
Shearson Lehman G/C Index	**1.5**

1-year returns

	%
Delaware Trust (EB), Del.	21.2
Security Pacific, Calif.	15.3
First Variable Life, Ark.	14.4
TransAmerica Life (Acct. T-2)	14.3
Beverly Bank, Ill.	12.8
Trust Svcs of America, Calif.	12.6
Connecticut Natl. Bank (EB)	12.4
Summit Trust Co., N.J.	12.3
IAA Trust (Fund B), Ill.	12.0
First of Chicago	11.7
Morgan Guaranty, N.Y.	11.6
First Interstate of Calif.	11.4
Norstar Trust Co., N.Y.	11.4
First Wis. Natl., Madison	11.3
New England Mutual, Mass.	11.2
Colonial American Natl., Va.	11.1
Mutual of New York (Priv. pl.)	11.1
Mid-State Bancorp, Pa.	11.0
United of Denver, Colo.	11.0
Central Fidelity (EB), Va.	10.8
First Interstate of Denver	10.8
Sun Bank, Fla.	10.5
Associated Manitowoc (High)	10.4
First Interstate of Ariz.	10.4
Norwest Bank, Minn.	10.3
HT Investors, R.I.	10.2
Mercantile Safe, Md.	10.2
Principal Mutual Life, Iowa	10.1
First Kentucky Trust (Ret. tr.)	10.1
First of Chicago ($ fixed), Ill.	10.1
Pacific Mutual, Calif.	10.1
Sentry Life, (Acct. D), Wis.	10.1
E.F. Hutton Trust (Govt. B), Del.	10.0
Midlantic National, N.J.	10.0
Chase Manhattan (A), N.Y.	10.0
Colorado Natl. Bank (Pooled)	9.9
Wachovia Bank, N.C.	9.9
Connecticut National (Inter.)	9.8
Northern Central, Pa.	9.8
First of Omaha (C), Neb.	9.7
E.F. Hutton Trust (2), Del.	9.7
Seafirst Bank, Wash.	9.7
Mercantile Safe (Inter.), Md.	9.7
Bank of America, Calif.	9.6
American Security, D.C.	9.6
Toledo Trust, Ohio	9.6
Mutual of New York (Pub. bond)	9.6
First Tennessee Memphis	9.6
Signet Bank/Maryland (Short term)	9.5
Chemical Bank (Com. 1), N.Y.	9.5
Mercantile National, Ind.	9.5
Philadelphia National, Pa.	9.5
First of Neenah (Mtg.), Wis.	9.4
Hawaiian Trust (Defensive)	9.4
Lincoln Natl. Pens (Corp.), Ind.	9.4
Harris Trust, Ill.	9.3
First City Natl., Houston	9.3
First of Neenah (Long term), Wis.	9.2
Manufacturers Detroit, Mich.	9.2
Trustmark Natl, Miss.	9.2
AmeriTrust, Ohio	9.2
Society National, Ohio	9.2
Security National, W. Va.	9.2
Travelers (Acct. P), Conn.	9.2
Shearson Lehman G/C Index	**8.1**

3-year returns

	%
United of Denver, Colo.	25.0
Centerre Trust, Mo.	24.5
First Interstate of Denver	23.7
Delaware Trust (EB), Del.	23.2
Travelers (Acct. P), Conn.	21.7
Connecticut Natl. Bank (EB)	21.4
LaSalle National (Long term), Ill.	21.4
Equitable Life (No. 5), N.Y.	21.3
TransAmerica Life (Acct. T-2)	20.9
Manufacturers Life (B), Ont.	20.8
IAA Trust (B), Ill.	20.7
Trust Svcs of America, Calif.	20.2
Hawaiian Trust	20.0
Beverly Bank, Ill.	20.0
Republic Natl. Dallas	19.9
First Interstate of Ariz.	19.8
American Security, D.C.	19.5
Principal Mutual Life, Iowa	19.5
First Trust Corp., Colo.	19.4
Citicorp, N.Y.	19.3
John Hancock, Mass.	19.3
AmSouth, Ala.	19.3
Colorado National Bank (Pooled)	19.1
Natl. Bank of Commerce, Neb.	19.1
First Wis. Natl., Madison	19.0
First of Chicago, Ill.	19.0
Society National, Ohio	18.9
First Kentucky Trust (Ret. tr.)	18.9
Colonial American Natl. (Inc.)	18.8
CIGNA Corp. (Act. Man.), Conn.	18.7
Continental Illinois (Comm.)	18.7
Metropolitan Life (SA No. 41)	18.7
Connecticut Natl. Bank (Inter.)	18.6
Harris Trust, Ill.	18.6
General American (Acct. 8), Mo.	18.5
First of Omaha (C), Neb.	18.4
First Interstate of Calif.	18.4
First Variable Life, Ark.	18.4
First City Natl., Houston	18.4
Northern Trust, Ill.	18.4
Chemical Bank (Comm.), N.Y.	18.4
Key Trust Co., N.Y.	18.4
Morgan Guaranty, N.Y.	18.3
Wachovia Bank, N.C.	18.2
Bessemer Trust, N.Y.	18.1
E.F. Hutton Trust (B), Del.	18.1
Pacific Mutual, Calif.	18.1
Seafirst Bank, Wash.	18.1
Mellon Bank (EB), Pa.	18.0
Central Fidelity (EB), Va.	18.0
Manufacturers Hanover (Gr. Tr.)	18.0
First of Chicago ($ fixed), Ill.	18.0
Liberty National, Ky.	18.0
First Jersey National, N.J.	17.9
Manufacturers Detroit, Mich.	17.8
Lincoln Natl. Pens (Corp.), Ind.	17.8
American National (EB), Minn.	17.7
Wells Fargo (Index), Calif.	17.7
Fidelity Bank, (Comm.), Pa.	17.7
Shearson Lehman G/C Index	**17.6**

5-year returns

	%
United of Denver	22.9
Centerre Trust, Mo.	21.8
Delaware Trust (EB)	21.7
First Interstate of Denver	21.5
First Variable Life, Ark.	20.7
Trust Svcs of America, Calif.	20.7
First Wis. Natl., Madison	20.2
Connecticut Natl. Bank (EB)	20.0
IAA Trust Co. (B), Ill.	20.0
First Kentucky Trust (Ret. tr.)	19.7
AmSouth, Ala.	19.6
CIGNA Corp. (Act. mgd.), Conn.	19.6
American Security, D.C.	19.5
Colorado Natl. Bank (Pooled)	19.4
Citicorp, N.Y.	19.3
Society National, Ohio	19.3
Beverly Bank, Ill.	19.3
John Hancock, Mass.	19.2

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Capital Management Group

Pacific Mutual, Calif.	19.1
First Interstate of Ariz.	19.1
Colonial American Natl. (Inc.), Va.	18.8
Mutual of New York (Priv. place)	18.8
Equitable Life (No. 5), N.Y.	18.8
First of Chicago, Ill.	18.7
Central Fidelity (EB), Va.	18.7
First of Chicago ($ fixed)	18.7
Travelers (Acct. P), Conn.	18.5
Wachovia Bank, N.C.	18.5
Key Trust Co., N.Y.	18.5
Natl. Bank of Commerce, Neb.	18.4
First of Omaha (C), Neb.	18.4
Mutual of New York (Public)	18.4
Morgan Guaranty, N.Y.	18.4
First Interstate of Calif.	18.3
Sovran Bank (Inst. Bond), Va.	18.1
Republic Natl., Dallas	18.1
First Trust Corp., Colo.	18.0
CIGNA Corp. (Inter.), Conn.	18.0
Liberty Natl., Ky.	18.0
Hawaiian Trust	17.9
Marine Midland, N.Y.	17.9
State Street Bank, Mass.	17.7
Philadelphia National, Pa.	17.7
Mellon Bank (EB), Pa.	17.7
General American (Acct. 9), Mo.	17.6
Shearson Lehman G/C Index	**17.5**
Commerce Union, Tenn.	17.5
Manufacturers Detroit, Mich.	17.4
Citizens Comm. & Sav. (Inter.)	17.4
Travelers (Acct. D), Conn.	17.4
Harris Trust, Ill.	17.4
Toledo Trust, Ohio	17.4
Northern Trust, Ill.	17.4

10-year returns

	%
United of Denver	13.2
Sovran Bank (Inst.), Va.	12.9
Centerre Trust, Mo.	12.9
Beverly Bank, Ill.	12.8
Fidelity Bank (Comm.), Pa.	12.6
Pacific Mutual, Calif.	12.5
American Security, D.C.	12.4
Texas Commerce (Act. mgd.)	12.3
First Interstate of Denver	12.3
Seafirst Bank, Wash.	12.3
Hibernia National, La.	12.2
First Jersey National, N.J.	12.2
First Interstate of Calif.	12.1
First Wis. Natl., Madison	12.1
First Kentucky Trust (Ret. tr.)	11.9
Manufacturers Hanover (Gr. tr.)	11.9
Morgan Guaranty, N.Y.	11.8
Central Fidelity (EB), Va.	11.7
First Interstate of Ariz.	11.7
Boatmen's National, Mo.	11.6
Manufacturers Detroit, Mich.	11.5
Bank of New England, Mass.	11.5
Connecticut Natl. Bank (EB)	11.4
American National Bank, Tenn.	11.4
Merchants National, Pa.	11.4
CIGNA Corp. (Act. mgd.), Conn.	11.3
IAA Trust (Fund B), Ill.	11.3
Mercantile Bank (Coll.), Mo.	11.3
Citicorp, N.Y.	11.3
US Trust, N.Y.	11.3
John Hancock, Mass.	11.2
Colonial American Natl., (Inc.)	11.1
Toledo Trust, Ohio	11.1
AmeriTrust (Reserve), Ohio	11.0
First Bank Milwaukee	11.0
Cullen Bank (EB), Texas	11.0
Commerce Union, Tenn.	11.0
Key Trust Co., N.Y.	10.9
American Natl. (EB), Minn.	10.9
Mellon Bank (EB), Pa.	10.9
First of Maryland	10.9
Indiana National Bank	10.9
Trust Svcs of America, Calif.	10.9
Oregon Bank	10.9
Wachovia Bank, N.C.	10.9
Jefferson Trust (Ct. Eb.), Ill.	10.9
First Fidelity (Inter.), N.J.	10.9
Bessemer Trust, N.Y.	10.9
Shearson Lehman G/C Index	**10.7**

Top quartile commingled equity funds
3-month returns

	%
Security Pacific, Calif. (E)	33.6
California First Bank	32.5
Citizens Chillicothe (Emp B), Mo.	31.1
New England Mutual (Growth)	30.4
E.F. Hutton Trust (No. 1), Del.	28.9
Texas Commerce (Div. com stk.)	28.6
First of Toledo, Ohio	27.5
Oregon Bank	26.9
Sun Bank, Fla.	26.9
United of Denver	26.8
Philadelphia Natl., Pa.	26.7
MTrust (Growth), Texas	26.3
Lincoln Natl. Pens. (Select)	25.3
Valley Natl. (I), Ariz.	25.0
Summit Trust Co., N.J.	24.8
Beverly Bank, Ill.	24.7
Prudential (Vca 9), N.J.	24.3

Top fixed funds by size
1-year returns
Over $100 million

	%
TransAmerica Life (Acct. T-2)	14.3
First of Chicago	11.7
Morgan Guaranty, N.Y.	11.6
Principal Mutual Life, Iowa	10.1
First of Chicago ($ fixed.)	10.1
Pacific Mutual, Calif.	10.1
Wachovia Bank, N.C.	9.9
American Security, D.C.	9.6
Lincoln Natl. Pens. (Corp.)	9.4
Harris Trust, Ill.	9.3

$50 million to $100 million

	%
First Interstate of Denver	10.8
Norwest Bank, Minn.	10.3
First Kentucky Trust (Ret. tr.)	10.1
Chase Manhattan (A)	10.0
Mercantile Safe (Inter.)	9.7
Mutual of New York (Pub.)	9.6
First Tennessee Memphis	9.6
Hawaiian Trust (Def.)	9.4
Manufacturers Detroit, Mich.	9.2
Trustmark Natl., Miss.	9.2

$10 million to $50 million

	%
Delaware Trust Co. (EB)	21.2
Security Pacific, Calif.	15.3
Trust Svcs of America	12.6
Summit Trust Co., N.J.	12.3
IAA Trust Co. (B), Ill.	12.0
First Interstate of Calif.	11.4
Norstar Trust Co., N.Y.	11.4
First Wis. Natl., Madison	11.3
New England Mutual, Mass.	11.2
Mutual of New York (Priv.)	11.1

Under $10 million

	%
First Variable Life, Ark.	14.4
Beverly Bank, Ill.	12.8
Connecticut Natl. Bank (EB).	12.4
Colonial American Natl. (Inc.)	11.1
Central Fidelity (EB), Va.	10.8
Associated Manitowoc (High)	10.4
First Interstate of Ariz.	10.4
Sentry Life (D), Wis.	10.1
E.F. Hutton Trust (B), Del.	10.0
E.F. Hutton Trust (2), Del.	9.7

10-year returns
Over $100 million

	%
Sovran Bank (Inst.), Va.	12.9
Centerre Trust, Mo.	12.9
Pacific Mutual, Calif.	12.5
American Security, D.C.	12.4
Texas Commerce (Act. mgd.)	12.3
Manufacturers Hanover	11.9
Morgan Guaranty, N.Y.	11.8
Boatmen's National, Mo.	11.6
Bank of New England, Mass.	11.5
CIGNA Corp. (Act. mgd.)	11.3
Mercantile Bank (Coll.)	11.3
Citicorp, N.Y.	11.3

$50 million to $100 million

	%
Fidelity Bank, (Com.), Pa.	12.6
First Interstate of Denver	12.3
First Jersey National	12.2
First Kentucky Trust (Ret. tr.)	11.9
Manufacturers Detroit	11.5
AmeriTrust (Res.), Ohio	11.0
Mellon Bank (EB), Pa.	10.9
First Fidelity Bank (Inter.)	10.9
Massachusetts Mutual	10.7
Provident National, Pa.	10.4
Northern Trust, Ill.	10.4
Bank of New York	10.4

$10 million to $50 million

	%
United of Denver	13.2
Seafirst Bank, Wash.	12.3
First Interstate of Calif.	12.1
First Wis. Natl., Madison	12.1
American Natl. Bank, Tenn.	11.4
Merchants Natl., Pa.	11.4
IAA Trust Co. (8), Ill.	11.3
Toledo Trust, Ohio	11.1
First Bank Milwaukee	11.0
Cullen Bank (EB), Texas	11.0
Commerce Union, Tenn.	11.0

Under $10 million

	%
Beverly Bank, Ill.	12.8
Central Fidelity (EB), Va.	11.7
First Interstate of Ariz.	11.7
Connecticut Natl. (EB)	11.4
Colonial American Natl. (Inc.)	11.1
Oregon Bank	10.9
American Natl., Ind.	10.6
First of Neenah (Inter.)	10.6
Associated Manitowoc (High)	10.6
First Natl. Lincoln, Neb.	10.4

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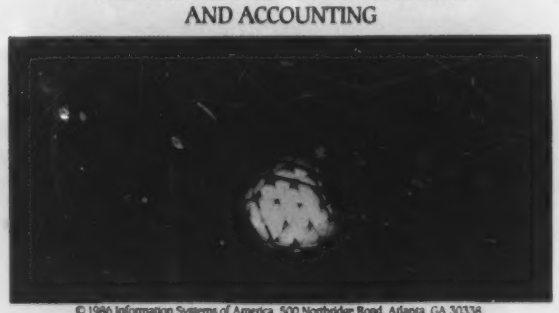

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MANAGING INFORMATION FOR ALL ITS WORTH.

ISA. INFORMATION SYSTEMS OF AMERICA

Norwest Bank, Minn.	24.2
First Pennsylvania Bank	24.2
Puget Sound Natl., Wash.	24.1
First City Natl., Houston	24.1
Guardian Insurance (Acct. 1), N.Y.	23.9
IDS Trust (A), Minn.	23.9
First Alabama, Mobile	23.8
Norstar Trust, N.Y.	23.6
Equitable Life (No. 4), N.Y.	23.5
Irving Trust, N.Y.	23.5
Wachovia Bank (Mgmt.), N.C.	23.4
US Trust, N.Y.	23.3
Morgan Guaranty (Large Co. Fd.)	23.2
First Kentucky Trust (Ret. tr.)	23.2
First of America (Con. val.), Mich.	23.1
Pacific Mutual, Calif.	23.0
Mutual of America (No. 1), N.Y.	23.0
Marquette Bank, Minn.	22.9
Morgan Guaranty, N.Y.	22.9
Mutual of New York (Growth)	22.9
First Interstate of Ariz. (EB)	22.9
National City Cleveland	22.8
Mutual of America (No. 2), N.Y.	22.8
Lincoln Natl. Pens. (Growth), Ind.	22.7
Principal Mutual Life, Iowa	22.6
Citicorp (Com. stk.), N.Y.	22.4
Trust Svcs of America, Calif.	22.4
InterFirst Bank Dallas	22.3
E.F. Hutton Trust (Fund 6), Del.	22.2
Commerce Bank, K.C. (Com.)	22.1
First of America, Mich.	22.1
First of Cincinnati	22.1
Bank of the West, Calif.	22.1
Hibernia National, La.	22.1
American Security, D.C.	22.0
United Missouri, Kansas City	22.0
Manufacturers Life, Ont.	22.0
Seafirst Bank, Wash.	22.0
Connecticut Mutual Life (CM)	22.0
Mercantile Bank (Coll.), Mo.	21.9
First Interstate of Denver	21.9
General American (Index), Mo.	21.7
John Hancock, (1K), Mass.	21.7
Allied Bank, Texas	21.6
LaSalle National (Core), Ill.	21.6
Manufacturers Detroit	21.5
Mellon Bank (EB), Pa.	21.4
Indiana National Bank	21.4
American National Bank, Tenn.	21.4
Maryland National (Com. stk.)	21.4
Boatmen's National, Mo.	21.4
Standard & Poor's 500	**21.4**
Bank of America (Stk. Ind.), Calif.	21.4
Merchants National (EB I), Ind.	21.4

International advisers: June 29.

1-year returns

	%
Sun Bank, Fla.	40.6
Security Pacific (E), Calif.	34.1
Cullen Bank (EB), Texas	33.5
Morgan Guaranty (Large), N.Y.	30.0
Puget Sound National, Wash.	29.9
Bank of the West, Calif.	29.8
Morgan Guaranty, N.Y.	29.5
South Carolina National (Stock)	29.4
IDS Trust Co. (A), Minn.	29.2
First Alabama Bank (I)	29.2
E.F. Hutton Trust Co. (No. 1), Del.	29.1
California First Bank	29.1
Citizens & Southern, Ga.	28.8
First City National Houston	28.7
InterFirst Bank Dallas (Income)	28.7
Irving Trust, N.Y.	28.3
Citizens Chillicothe (Emp. B), Mo.	28.1
CREF	28.0
Oregon Bank	27.7
State Street Bank (No. 1), Mass.	27.7
E.F. Hutton Trust Co. (No. 2), Del.	27.7
Frost National (Fund A), Texas	27.5
Society National (Rel. Val.), Ohio	27.4
Commerce Bank, K.C. (Com.)	27.4
Lake Shore National, Ill.	27.3
Republic National Dallas	27.1
Phoenix Mutual, Conn.	27.0
Wells Fargo (Tilts & Timing), Calif.	27.0
Harris Trust (Common stk.), Ill.	27.0
Bank of Delaware (VIP)	27.0
Hamilton Bank, Pa.	26.9
General American (Index), Mo.	26.8
Mellon Bank (EB stk.), Pa.	26.8
State Street Bank (Mat. Syn.)	26.8
First Interstate of Wash.	26.8
Wachovia Bank, N.C.	26.6
First of Toledo, Ohio	26.6
Hawaiian Trust	26.5
First Interstate of Calif. (Index)	26.4
National of Georgia	26.4
Principal Mutual Life, Iowa	26.3
Standard & Poor's 500	**26.2**
Citizens Fidelity (Col. inv.), Ky.	26.2
Security Pacific, Calif.	26.2
Maryland National (Com. stk.)	26.2
American Natl. Chicago (S&P)	26.0
State Street Bank (S&P), Mass.	25.9
Wells Fargo, (Index), Calif.	25.9
Bank of America (Stk. ind.), Calif.	25.9
Seafirst Bank, Wash.	25.9
Citytrust (E1), Conn.	25.7
Allied Bank, Texas	25.6
Lincoln Natl. Pens, (Growth), Ind.	25.6
Norstar Trust Co., N.Y.	25.4

Top equity funds by size

1-year returns

Over $100 million

	%
Sun Bank, Fla.	40.6
Morgan Guaranty (Large)	30.0
Morgan Guaranty N.Y.	29.5
CREF	28.0
Republic Natl., Dallas	27.1
Wells Fargo (T&T), Calif.	27.0
Harris Trust (Comm.), Ill.	27.0
Mellon Bank (EB), Pa.	26.8
First Interstate of Calif.	26.4
Wells Fargo, Calif.	25.9
Bank of America (Index)	25.9

$50 million to $100 million

	%
IDS Trust Co. (A), Minn.	29.2
First City Natl. Houston	28.7
Interfirst Bank Dallas (Inc.)	28.7
Society National (Rel.), Ohio	27.4
Phoenix Mutual, Conn.	27.0
Citytrust (E1), Conn.	25.7
Norstar Trust Co., N.Y.	25.4
Security Pacific (8), Calif.	25.4
First Kentucky Trust (Ret. tr.)	25.1
United Missouri, K.C.	24.6

$10 million to $50 million

	%
Security Pacific (E), Calif.	34.1
Cullen Bank (EB), Texas	33.5
South Carolina Natl. (Stk.)	29.4
First Alabama Bank (I)	29.2
California First Bank	29.1
Citizens & Southern, Ga.	28.8
Irving Trust, N.Y.	28.3
Citizens Chillicothe (B), Mo.	28.1
E.F. Hutton Trust (2), Del.	27.7
Frost National (EB Fd. A)	27.5

Under $10 million

	%
Puget Sound Natl., Wash.	29.9
Bank of the West, Calif.	29.8
E.F. Hutton Trust (1), Del.	29.1
Oregon Bank	27.7
Principal Mutual Life, Iowa	26.3
American Natl. (S&P)	26.0
Unibanctrust, Ill.	24.9
Signet Bank/Maryland (D)	24.3
Dominion Trust (Corp.), Va.	24.3
Marquette Bank Minn.	23.2

10-year returns

Over $100 million

	%
Manufacturers Life, Ont.	25.5
Sun Bank, Fla.	23.2
American Natl. Chicago	21.0
First Union Bank, N.C.	20.9
US Natl. of Oregon (Quali.)	20.3
Manufacturers Detroit	20.2
Provident National, Pa.	19.9
MTrust (Growth), Texas	19.9
Bessemer Trust, N.Y.	19.8
Equitable Life (No. 4), N.Y.	19.7
Philadelphia Natl., Pa.	19.7

$50 million to $100 million

	%
New England Mutual (Sep.)	21.9
First Interstate of Denver	21.1
Natl. Bank of Commerce	20.3
Norstar Trust Co., N.Y.	17.8
Colorado Natl. Bank	17.7
AmSouth, Ala.	17.6
Phoenix Mutual, Conn.	17.4
Citytrust (E1), Conn.	17.4
First City Natl. Houston	17.3
Connecticut Mutual Life (CM)	17.2

$10 million to $50 million

	%
Guardian Insurance (1), N.Y.	22.7
Citizens Chillicothe (Emp. B)	22.5
First Trust Corp., Colo.	21.0
First Interstate of Okla.	19.8
US Natl. of Galveston	19.6
Confederation Life, Ont.	19.5
Nationwide Life Ins., Ohio	19.2
First of Omaha (D)	19.2
Employers Life of Wausau	19.0
MTrust (Value), Texas	18.7

Under $10 million

	%
Principal Mutual Life, Iowa	19.2
Wheeling Dollar Bank	18.2
Unibanctrust, Ill.	17.8
First of Neenah (Stk.), Wis.	17.4
American Natl. Chicago	16.9
Puget Sound Natl., Wash.	16.5
Signet Bank/Maryland (D)	16.5
Dominion Trust (Corp.), Va.	16.4
Merchants Natl. (2), Ind.	16.4
Oregon Bank	15.6

CUSTOMER INFORMATION FROM GENERAL MOTORS

HOW GM IS TAKING THE LEAD IN QUALITY

NOT JUST WORLD CLASS—A NEW, SCIENTIFIC STANDARD OF EXCELLENCE.

People were calling the heartland of American industry "The Rust Belt." It was 1980. We said there would be an American industrial renaissance. And we meant it.

GM laid out a four-part strategy. And went to work.

At the heart of the strategy is the automobile, and at the heart of the automobile is the drivetrain. We were determined to set a new standard of excellence with the automobile in operation.

And we decided to do it the hard way. Instead of using engineering specifications or a survey method that fit well with our strengths and minimized our weaknesses, we asked you, our customer, what you want and need in an automobile in operation, what we call driveability.

Then we took the desires of the most demanding drivers, the 90th percentile, and called that standard our minimum. We said that every GM car, not just those that cost $25,000 or more, would have to meet the 90th percentile standard.

World class, which had been sufficient during the early stages of our strategy, was not a tough enough standard anymore. The GM Uniform Test Standard is a dynamic measure of excellence in engineering and manufacturing on a scale determined by the customer. It is the most rigorous test in the industry.

Across our entire 1987 production, from the Allante to the lowest priced car we sell, 96% of all GM vehicles tested meet the driveability expectation of the most demanding customers—the 90th percentile.

Here are some of the tests: After sitting out all night in low temperatures, the cars are checked for ease of starting and ability to back out of the garage and accelerate when cold. Then we check for idling at stop lights and smooth acceleration to 15, 25, 35, 45 and 55 mph maneuvers.

Every car is checked for performance in hard braking to a stop and then accelerating into traffic. And at the same time, the transmissions are evaluated for shift smoothness, noise, and overall operation.

When that's all done, we do it all over again under hot operating conditions.

The result: so far in 1987, 96% of all GM cars tested meet or exceed the demanding driver's standard.

On other aspects of quality—the fit and finish of the parts other than the engine and transmission—GM is also making enormous strides toward setting new standards of excellence.

And our goal is to keep raising the standard until GM cars stand above their competition in every category and every price range.

We've made this leap in quality here in America. In Fort Wayne, Ind., and Linden, N.J. In Michigan and Georgia and California. We are doing it here. With the best people and the best technology in the world.

We had a vision. We believed an American industrial renaissance was possible. And it is!

We are demonstrating to our fellow Americans in industry that timidity is not the answer. Retrenchment is no solution. At GM, we say, "Go for it!" And we have.

The vision is paying off.

Make Your Own Comparison

We invite you to visit any GM dealer to test drive any new GM car. Compare its driveability to your demanding standards. Then compare it to any of the cars built by our competitors.

For example: Take any expensive Japanese car, with air conditioning, automatic transmission, and so on, and compare it to a medium-priced GM car. You're the customer, you decide which car has the best driveability. See for yourself how GM's vision is paying off.

This advertisement is part of our continuing effort to give customers useful information about their cars and trucks and the company that builds them.

GM
MARK OF EXCELLENCE

Chevrolet • Pontiac
Oldsmobile • Buick
Cadillac • GMC Truck

Mutual of New York (Income).....25.4
American National (EB), Minn. 25.4
Security Pacific (Income B), Calif. .25.4
E.F. Hutton Trust Co. (A), Del. 25.3
Wilmington Trust, Del. 25.2
Toledo Trust, Ohio.....25.1
First Kentucky Trust (Ret. tr.) 25.1
Citicorp (Common), N.Y. 25.0
First National Lincoln, Neb. 25.0
American National, Tenn. 25.0
Unibanctrust, Ill.....24.9

3-year returns

	%
Sun Bank, Fla.	43.7
Bank of the West, Calif.	34.7
First of America, Mich.	34.3
Puget Sound National, Wash.	33.8
First Trust Corp., Colo.	33.3
Manufacturers Detroit	32.9
E.F. Hutton Trust Co. (A), Del.	32.6
Guardian Insurance (No. 1), N.Y.	32.5
State Street Bank (Fund I), Mass.	32.5
Barnett Banks Trust (EB), Fla.	32.2
Morgan Guaranty (Lg. Co. Fd.)	31.7
IDS Trust Co. (A), Minn.	31.6
E.F. Hutton Trust (No. 1), Del.	31.5
Mellon Bank (EB stk.), Pa.	31.2
Republic National Dallas	31.0
Philadelphia National	30.6
Frost National (Fund A), Texas	30.6
New England Mutual (Sep.)	30.3
Citizens Chillicothe (Emp. B), Mo.	30.2
Bank of New England (Valuepath)	30.2
First of Neenah (Stock), Wis.	30.2
First of America (Con. val.), Mich.	30.0
First Security Natl. Ky. (Fund D)	30.0
Cullen Bank (EB), Texas	30.0
State Natl. Evanston (Stock), Ill.	29.6
Pioneer Bank, Ill.	29.6
First of Neenah (Stock), Wis.	29.6
Commerce Bank St. Louis	29.4
Continental Bancorp (Com.), Pa.	29.2
Harris Trust (Com. stk.), Ill.	29.2
Nationwide Life Ins., Ohio	29.0
Summit Trust Co., N.J.	29.0
Signet Trust Co. (EB), Va.	29.0
Omaha National Bank, Neb.	28.9
Trust Svcs of America, Calif.	28.7
Texas Commerce (Div. Com.)	28.5
Bank of Tokyo (Com. stk), N.Y.	28.4
John Hancock (1K), Mass.	28.4
John Hancock (1L), Mass.	28.3
American Natl. Chicago (Active)	28.3
Lake Shore National, Ill.	28.3
Citizens Fidelity (Col. Inv.), Ky.	28.2
Morgan Guaranty, N.Y.	28.2
Norwest Bank, Minn.	28.2
Citizens & Southern, Ga.	28.1
American National Bank, Tenn.	28.0
Society National (Value Eq.), Ohio	28.0
First of Toledo, Ohio	27.9
Toledo Trust, Ohio	27.9
Oregon Bank	27.8
CREF	27.7
Citytrust (E1), Conn.	27.6
California First Bank	27.5
Wells Fargo (Index), Calif.	27.5
First Kentucky Trust (Ret. tr.)	27.4
MTrust (Growth), Texas	27.4
First Fidelity Bank (EB. com.), N.J.	27.4
American Natl. Chicago (S&P)	27.4
Standard & Poor's 500	**27.4**
Pittsburgh Natl. (Grp. QMS)	27.4

5-year returns

	%
Sun Bank, Fla.	39.7
Manufacturers Life, Ont.	32.2
New England Mutual (Growth)	31.6
First Union Bank, N.C.	31.4
Guardian Insurance (No. 1), N.Y.	31.1
Manufacturers Detroit	29.8
Republic National Dallas	29.5
First Interstate of Denver (Value)	29.1
Morgan Guaranty (Large co.)	28.9
Cullen Bank (EB), Texas	28.9
Lake Shore National, Ill.	28.9
Principal Mutual Life, Iowa	28.5
Provident National, Pa.	28.1
MTrust (Value), Texas	28.0
Connecticut Mutual Life (CM eq.)	28.0
Marine Midland, N.Y.	27.9
First Trust Corp., Colo.	27.9
Texas Commerce (Div. com.)	27.8
First Interstate of Okla.	27.8
First of America, Mich.	27.5
Nationwide Life Ins., Ohio	27.4
CREF	27.4
Mutual Benefit, N.J.	27.4
John Hancock (1L), Mass.	27.3
First Alabama, Mobile	27.3
Mellon Bank (EB stock), Pa.	27.0
First of Omaha (D), Neb.	26.9
Harris Trust (Common), Ill.	26.7
Citytrust (E1), Conn.	26.7
Colorado National Bank	26.6
First Fidelity (EB), N.J.	26.6
John Hancock (1K), Mass.	26.6
Standard & Poor's 500	**26.6**
Dauphin Deposit (Corp. EB), Pa.	26.6
Philadelphia National	26.6
Signet Trust Co. (EB), Va.	26.5
Wells Fargo (Index), Calif.	26.5
Irving Trust, N.Y.	26.5
Continental Bancorp (Com.), Pa.	26.5
American Natl. Chicago (S&P)	26.5
Bank of the West, Calif.	26.4
Morgan Guaranty, N.Y.	26.4
MTrust (Growth), Texas	26.4
State Street Bank (S&P), Mass.	26.3
First Variable Life, Ark.	26.3
First of Neenah (Stock), Wis.	26.3
US Natl. of Oregon (Qualivest)	26.2
American Natl. (Active), Chicago	26.2
Valley National (Eq. I), Ariz.	26.2
Oregon Bank	26.1
First Security Natl. (Fund D), Ky.	26.1
Massachusetts Mutual	26.0
State Street Bank, Mass.	25.9
Prudential (PRIFORM), N.J.	25.8
Society National (Relative), Ohio	25.8
First Bank Milwaukee (Col.)	25.8
Citicorp (Com.), N.Y.	25.8

10-year returns

	%
Manufacturers Life, Ont.	25.5
Sun Bank, Fla.	23.2
Guardian Insurance (Acct. 1), N.Y.	22.7
Citizens Chillicothe (Emp. B), Mo.	22.5
New England Mutual (Growth)	21.9
First Interstate of Denver	21.1
First Trust Corp., Colo.	21.0
American Natl. Chicago (Active)	21.0
First Union Bank, N.C.	20.9
US Natl. of Oregon (Qualivest)	20.3
National Bank of Commerce, Neb.	20.3
Manufacturers Detroit	20.2
Provident National, Pa.	19.9
MTrust (Growth), Texas	19.9
Bessemer Trust, N.Y.	19.8
First Interstate of Okla.	19.8
Equitable Life (No. 4), N.Y.	19.7
Philadelphia Natl., Pa.	19.7
US Natl. of Galveston, Texas	19.6
Continental Bancorp (Comm.), Pa.	19.6
Confederation Life, Ont.	19.5
Texas Commerce (Div. Com. stk)	19.5
Nationwide Life Ins., Ohio	19.2
Principal Mutual Life, Iowa	19.2
First of Omaha (Fund D), Neb.	19.2
Employers Life of Wausau (1)	19.0
National City Cleveland	18.9
MTrust (Value), Texas	18.7
First of America, Mich.	18.7
Fifth Third Bank (EB), Ohio	18.7
Lake Shore Natl., Ill.	18.6
Aetna Life & Casualty, Conn.	18.6
Massachusetts Mutual	18.5
First Interstate of Wash.	18.3
State Natl., Evanston (Stock)	18.3
Republic Natl. Dallas	18.3
Signet Trust Co. (EB), Va.	18.2
Wheeling Dollar Bank, W. Va.	18.2
Omaha National Bank, Neb.	18.1
United of Denver	18.1
First Fidelity Bank (EB), N.J.	18.0
C&S Trust Florida (EB)	18.0
Equitable Life (Q-vest No. 18)	18.0
Penn Mutual Life (Acct. A), Pa.	17.9
First National Lincoln, Neb.	17.9
Citicorp (Com. stk), N.Y.	17.8
Unibanctrust, Ill.	17.8
Bank of Tokyo (Com. stk), N.Y.	17.8
Norstar Trust Co., N.Y.	17.8
Standard & Poor's 500	**17.0**

UAM buying its 15th firm

BOSTON — United Asset Management Corp. has agreed to acquire Rice, Hall, James & Associates, San Diego, from its principals.

Rice, Hall, James will be the 15th investment firm in the UAM group, said Archer Des Cognets, UAM senior vice president. UAM is a publicly traded holding company for investment management firms.

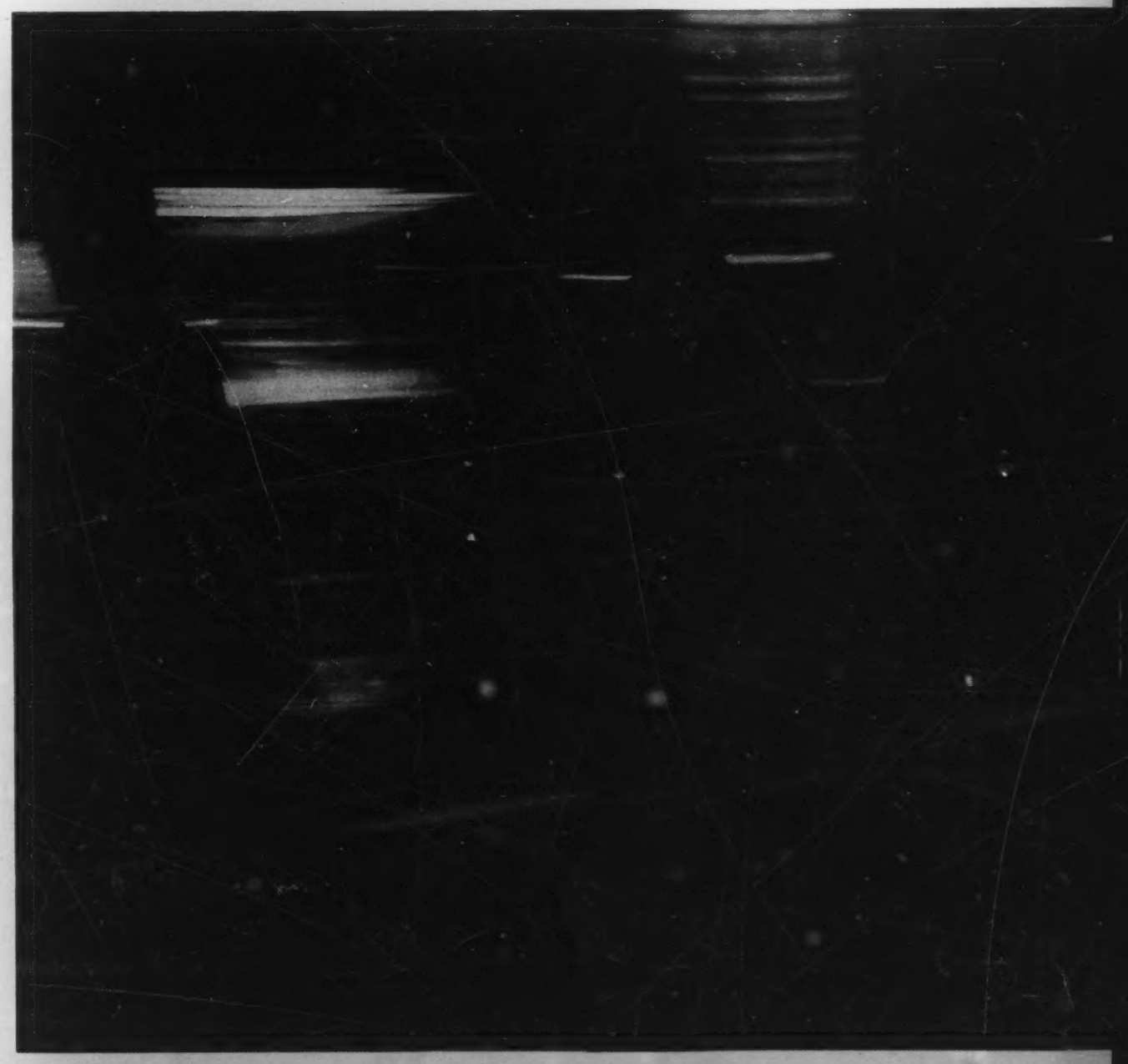
Rice, Hall, James has about $680 million under management, of which about 55% is tax-exempt, Mr. Des Cognets said. It manages mostly balanced accounts; the total asset mix is roughly two-thirds equities and one-third bonds.

UAM was attracted to Rice, Hall, James because of the quality and stability of its personnel, Mr. Des Cognets said.

Rice, Hall, James is headed by Louis E. Rice, president, and Samuel R. Trozzo, executive vice president.

The sale likely will close in late May, Mr. Des Cognets said.

BellSouth



Technology . . .

Continued from page 15

in cyclical, industrial stocks, including **Stone Container Corp.** and **Himont Inc.**

The fund's performance has improved greatly in recent years. Its compound annual return for the three years ended March 31 was 25.8%, placing it in the fifth decile of PIPER funds, and 25.2% for the five years, placing it in the fourth decile. Because it started in 1981, it was too new for the 10-year period.

Mr. Duncan said the fund's investment philosophy changed in late 1984. Before that, it included some emerging growth stocks as well as large-capitalization ones; now, while still growth-oriented, its holdings are all fairly large, well-known companies.

A focus on earnings growth also aided Citizens Bank of Chillicothe, Mo. Its $15.5 million pooled equity fund was third among all funds for the quarter, returning 31.1%, and fourth for the 10-year period, with a compound annual return of 22.5%.

It placed slightly lower, but still in the top 10% for the year, with 28.1%, and for the three-year period, with an annualized 30.2%. It was in the fifth decile in the five-year period, with a compound annual return of 24.1%.

Ed Douglas, president of Citizens Bank, attributed the five-year performance to a period in the early 1980s when the market moved in anticipation of earnings, not with them, and the fund's holdings tended to lag.

Mr. Douglas and the other investment committee members — Bill Welch, chairman of the bank, and Edgerton Welch, chairman emeritus — pick stocks from among those receiving Value Line's highest rating. Value Line ranks stocks on a scale of 1 to 5, with 1 being the highest.

The rankings are based on earnings momentum, price momentum, price relative to earnings and past pricing relative to other companies.

The investment committee supplements Value Line rankings with other outside research and its own analysis and picks 25 to 30 issues, Mr. Douglas said. Committee members like to see a growth rate above the price-earnings ratio and a high degree of dependability for growth, he said.

Stocks sometimes are sold when they drop to a Value Line 2 rating and always when they drop to a 3.

To protect against a major market decline, Citizens of Chillicothe recently overlaid the fund with a dynamic hedging strategy run by BEA Associates Inc., New York, Mr. Douglas said. Dynamic hedging uses futures transactions to assure a minimum return. The program run by BEA for the bank assures the fund will lose no more than 5% over three years.

One stock that has helped the fund reach its high level is its biggest holding, **Liz Claiborne Inc.**, which it bought in late 1984 at 12⅝ and now is trading in the 60s, he said. Other good performers include drug companies, such as **Marion Laboratories Inc.** and **Merck & Co. Inc.** and, in technology, **Digital Equipment**.

One of the top funds for the 10- and five-year periods was near the bottom for the three- and one-year periods but rebounded in the latest quarter. It, too, held technology stocks.

The fund, Toronto-based Manufacturers Life Insurance Co.'s U.S. equity fund, had a 25.5% compound annual return in the 10-year period, placing first. It was second for the five years, returning 32.2%.

The fund's 19.8% return in the three-year period and 10% return for the year put it in the bottom decile in both periods. In the most recent quarter, it returned 22%, placing it in the third decile.

"The things that hurt us in the previous two years are what helped us in the first quarter this year," said Veronica Onyskiw, assistant vice president.

The fund, now at $130 million, is heavily growth-oriented. Value is a consideration, too, but growth comes first, Ms. Onyskiw said.

In addition to its several technology holdings, including **Digital Equipment, Cray Research Inc., Sun Microsystems Inc.**, and **Digital Equipment,** it holds oils, such as **Atlantic Richfield Co.** and **Mobil Corp.**; chemicals, such as **Dow Chemical Co.** and **GAF Corp.**; papers, including **Bowater Inc.** and **Stone Container**; and drugs, such as **Marion Laboratories** and **Merck**.

A leader in almost every period of the survey was the separate capital growth fund offered by The New England (formerly New England Mutual Life Insurance Co.), Boston. The fund was fifth for the 10-year period, with a 21.9% compound annual return, and third for the five years, with 31.6%. It fell out of the top five but remained in the top 10% for the three-year period, returning a compound annualized 30.3%.

In the year ended March 31, it dropped to the fourth decile with a 23.8% return. It rebounded in the latest quarter, ranking fourth with 30.4%.

The fund, now at $80 million, invests in stocks that appear likely to have significant earnings growth in the next one to three years, said Bruce Murison, director of consultant marketing.

The fund's manager is Kenneth Heebner, a vice president of Loomis, Sayles & Co. Inc., Boston. The New England owns two-thirds of Loomis, Sayles.

Those growth stocks have come from several sectors. "Technology has been our most important area in the first quarter," Mr. Murison said, citing holdings in **Apple Computer, Seagate Technology** and **Digital Equipment.**

Also important in the quarter were drug and health care stocks, such as **Upjohn Co.** and **Merck**, and some bets on cyclical areas, such as automotive -- **Ford Motor Co.** — and papers — **Stone Container.**

The reason the fund's relative performance fell in the year ended March 31 likely was that 1986 was not a good year for growth funds, Mr. Murison said. ■

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It's happening now. It's happening fast. It's economic growth and business opportunities. And it's all happening in the nine Southeastern states of the BellSouth region.

In ten years, population will boom at a rate 44% faster than the rest of the nation; new jobs will be created at a rate 20% faster than the national average.

In ten years, there will be over 4 million new housing starts and about 4 million new jobs. Real personal income in the region will rise by 2.9% per year, compared to 2.7% for the nation.

The BellSouth management team is prepared to capitalize on this growth. They're committed to forward-looking business strategies and new technologies. And they're determined to stay ahead of the growing need for state-of-the-art products and services to meet customer needs in an expanding marketplace.

Selective acquisitions are a part of BellSouth's growth plans. BellSouth is already involved in new business opportunities that will lead to even greater revenues nationally and internationally.

BellSouth not only is in the midst of the action but is helping to make it happen.

To learn more about BellSouth, contact your broker or write: L.E. Spradlin, Director of Investor Relations, BellSouth Corporation, 675 West Peachtree Street, N.E., Atlanta, Georgia 30375, 404-420-8136.

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Moody's sets index

NEW YORK — Moody's Investors Service Inc. has established a new corporate bond index.

"Broadly speaking, our intent is to provide corporate bond investors with a practical and immediate yardstick of price changes such as long been available in the stock market," said William O. Dwyer, president, in a prepared statement.

Moody's, in the April 2 Bond Survey, a weekly magazine it publishes, distinguished its index by noting the bond-rating agency is "an independent analytical observer of the corporate market which is not involved itself in the trading of securities of any type."

The New York-based agency also announced Commodity Exchange Inc. filed in October for approval to trade a futures contract based on Moody's Investment Grade Corporate Bond Index.

High yields . . .

Continued from page 15

Stamford, Conn., whose special fixed-income fund ret urned 5.1%; Summit Trust Co., Summit, N.J., bond fund, 4.5%; and Beverly Bank & Trust Co., Chicago, bond fund, 4%.

RCB and Beverly reported using either junk bonds or high-coupon issues.

Ron Stajkowski, senior vice president at Beverly, said the basis for the fund's first-quarter success "revolves around a philosophy of high coupons with either non-call or call provisions where if they are taking it out it is taken out at a profit."

The $7 million fund is structured in a "barbell approach" where approximately 37% of the portfolio is "very short term" and matures within seven years. The remainder has a maturity in the 20-year range or more.

"That may appear to be assuming a lot of maturity risk by extending the portfolio, but I did it by buying high-coupon issues," he said.

The high-coupon approach "generates a lot of cash no matter what interest rates do," he said. The portfolio is made up of high-grade corporate bonds with high coupons, he said.

Mr. Stajkowski said interest rate forecasts play an important role in positioning the portfolio, which has an average maturity of 10 to 11 years.

"I'd say you have to do it (forecast rates) if you are operating with fixed-income money. You have to make a forecast. And if you are confident in it, you have to follow up with investment decisions," he said.

Beverly Bank's bond fund finished near the top for the longer periods as well, reporting 12.8% for the year, and compound annualized figures of 20%, 19.3% and 12.8% for the three-, five- and 10-year periods respectively.

For the 12 months ended March 31, Delaware Trust Co., Wilmington, with 21.2%, finished far ahead of second place Security Pacific National Bank, Los Angeles, with 15.3%. In third place was First Variable Life, followed by TransAmerica Life Insurance Co., San Francisco, with 14.3%.

Ken Holmes, vice president at Delaware, said the $22 million pooled fund holds medium-term high-quality bonds in the 10-year maturity range and is actively managed.

"We don't forecast and act upon interest rate forecasts. We believe the bond market is inefficient and we try to capitalize on those inefficiencies. We are active managers and for those terms we have been 99% invested; we don't hide in cash or swing maturities way out. We try to stay in the 10-year range most of the time," he said. There are "probably a dozen" issues in the portfolio, he said.

Delaware Trust also finished in the top five for the three- and five-year periods, with annualized returns of 23.2% and 21.7% respectively.

But officials at Denver Investment Advisors, which runs the First Interstate Bank of Denver fund, claim interest rate forecasting is fruitless and depend instead on fundamental analysis and basic long-term bond management.

First Interstate Bank of Denver's fund is one of the more successful longer-term bond fund investors, placing third for the three-year period with a compound annualized return of 23.7%; fourth for the five-year period with an annualized 21.5%; and placing in the top 10% for 10 years, with 12.3%. For the quarter, it matched the Shearson return of 1.5% and for the year it ranked in the top 10%, reporting 10.8%.

"For the long term I don't know anyone who can consistently forecast interest rates," said Tom Stevens, senior fixed-income manager at DIA.

The $55 million portfolio has a definite long-term emphasis, with an average maturity of 21.6 years and an average coupon rate of 9.61% at the end of the quarter, said Tom Larkin, vice president at DIA. The fund relies on long-term corporate bonds "because over the long term they have a built in yield advantage," he said.

"We de-emphasize market timing and utilize fundamental research, much of it done internally. It's a very fundamental approach to fixed-income investing. We don't bounce around a lot and we follow a traditional long-bond approach," he said.

Mr. Stevens said the key to the fund's success is found in a 1977 decision by Denver Investment Advisors to split its bond management into intermediate- and long-term portfolios.

"By separating them we found we could focus on each maturity and add value in that maturity class," he said. "Rather than making interest rate anticipation-type moves, we could focus on one to 10 years and longer than 10 years, which effectively neutralized interest rate forecasts. We also place a lot of emphasis on research. The Shearson Lehman Government/Corporate bond index is about 75% governments and agencies. We concentrate about 75% on corporates, which have a built-in 75 to 80 basis points advantage over the index."

For the three years ended March 31, United Bank of Denver topped the PIPER performance list with an annualized return of 25% followed by Centerre Trust Co. of St. Louis, 24.5%; and First Interstate Denver.

United of Denver again topped the list for the five-year period with a return of 22.9%, followed by Centerre, 21.8%; Delaware Trust, 21.7%; and First Interstate, 21.5%.

United of Denver also topped the ten-year PIPER performance with a return of 13.2% followed by Sovran Bank and Centerre Trust, each with 12.9%; and Beverly Bank with 12.8%. ■

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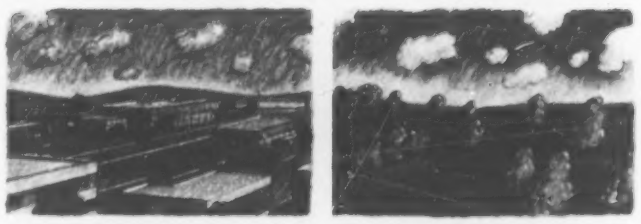

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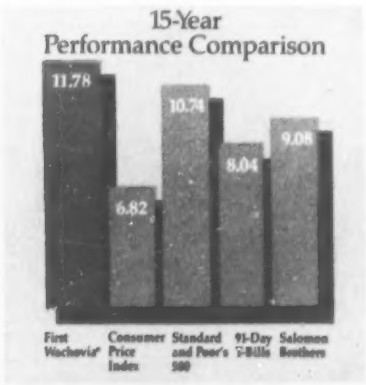


*Net of management fees

FIRST WACHOVIA

Bonuses drop, incentives up

LINCOLNSHIRE, Ill. — Annual bonuses paid to top-level corporate executives have decreased as a percentage of total compensation while long-term incentives have increased, a recent survey by Hewitt Associates shows.

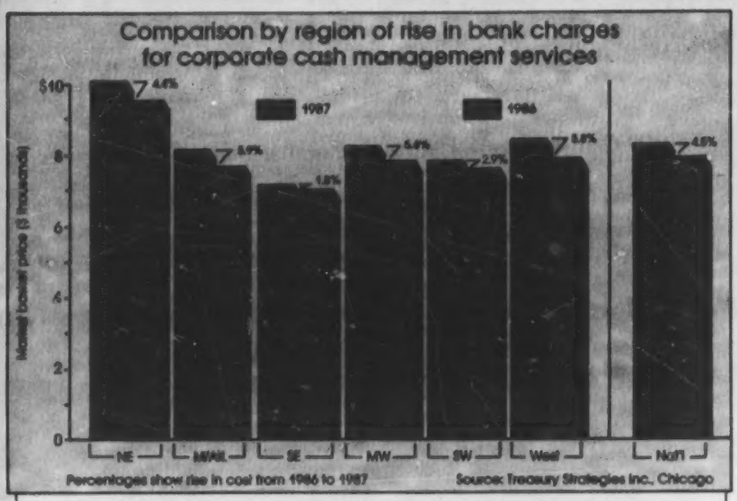
The Hewitt data, collected from 300 major companies nationwide, revealed annual bonuses made up only 17% of an executive's total compensation package in 1986, compared with 20% in 1983 and 23% in 1980.

The data also showed long-term incentives, such has non-qualified stock option plans, represented 23% of the executive's total compensation in 1986, compared with 22% in 1983 and 20% in 1980.

Benefits, such as supplemental retirement plans, also have increased, according to the findings. Benefits represented 17% of the compensation package in 1986, compared with 15% in 1983 and 13% in 1980.

Every surveyed company reported at least one perquisite program for upper level executives. Most offered an average of seven, the most popular being physical exams. ■

Cash Management



Compensating balance payments soar 35.2%

By Barry B. Burr

CHICAGO — Corporations that pay for cash management services with compensating balances saw their costs skyrocket an average 35.2% in the last year, while those that pay with cash found costs rise a more modest 4.5%, a survey shows.

The survey by Treasury Strategies Inc. found, in aggregate, banks nationwide raised prices for all eight cash management services.

But the survey noted differences by region and product. Increases were highest in the mid-Atlantic states and lowest in the Southeast.

The results show corporate cash managers "need to be smart shoppers" for bank services, said Anthony J. Carfang, principal, Treasury Strategies.

By product, increases were highest for account maintenance and lowest for controlled disbursement.

Overall, the increases were about double those reported by Treasury Strategies last year, when the cost of paying by compensating balances rose 16% and by cash, 2.7%.

Mr. Carfang said the wide differences between the two payment methods ought to persuade corporations to pay more bank charges in cash.

Among other findings, Treasury Strategies reported regional differ-

Continued on page 29

Oppenheimer loses its hedging clients

By Barry B. Burr

Cash managers at Ogilvy Group Inc., Campbell Soup Co., Automatic Data Processing Inc. and other corporations are withdrawing or seriously re-examining their participation in a dividend capture program with Oppenheimer & Co., New York, after its hedge failed to work, causing some losses.

Executives said the problems were peculiar to Oppenheimer's strategy, rather than to dividend capture programs in general. Oppenheimer was buying utility common stocks and hedging with stock index futures or options.

"There are times the hedge does not work," said Anthony Marchese, Oppenheimer senior vice president, who helped run the program.

Stephen M. Strocker, assistant treasurer and assistant secretary of Ogilvy Group in New York, said Ogilvy, which has $5 million to $6 million in corporate cash Oppenheimer, is withdrawing from the dividend capture program after suffering unspecified losses he said aren't "a material amount for our company."

"We're going to convert it into cash as we meet the 46-day holding period."

Corporations can qualify to exclude from their income for income tax purposes 80% of the dividend they receive, if they hold the stocks for at least 46 days.

At Campbell Soup, Camden, N.J., Brenda Edgerton, assistant treasurer-financing and risk management, said, "We're disappointed with what's gone on with Oppenheimer as a manager.

"The hedge they had on the program was in no way hedging the program . . . it wasn't protecting the underlying portfolio," she added.

"The program was just as unprotected with the hedge as without the hedge," she said. "It was just throwing money away."

Campbell decided to withdraw from Oppenheimer's dividend capture program before the firm revealed the program wasn't working.

Ms. Edgerton said Campbell still has money with Oppenheimer.

"We are winding down the program," Ms. Edgerton said. "We can't withdraw all at once."

She declined to specify how much Campbell has had with Oppenheimer, or give details about performance.

According to Leonard Schafer, manager of Campbell Finance Corp., Wilmington, Del., the soup company's investment subsidiary, the company had between $10 million and $50 million with Oppenheimer (*Pensions & Investment Age*, May 12, 1986).

Oppenheimer had been a manager for about 1½ years, Ms. Edgerton added.

Campbell Soup Company

At Automatic Data Processing, Roseland, N.J., Ken Rand, vice president-treasury operations, said the company was planning to meet with Oppenheimer executives before deciding whether to continue its participation.

"We're reviewing it," Mr. Rand explained. "We haven't made any decision on what to do with it."

Automatic Data Processing has $5 million with Oppenheimer.

Continued on page 30

6 chemical companies try trade program

By Chuck Paustian

Six of the country's major chemical companies are developing a pilot program using the automated clearinghouse to pay trading partners electronically.

Participants are: PPG Industries Inc., Pittsburgh; Union Carbide Corp., Danbury, Conn.; E.I. Du Pont de Nemours & Co., Wilmington, Del.; The Dow Chemical Co., Midland, Mich.; Air Products and Chemicals Inc., Allentown, Pa.; and Sun Refining and Marketing Co., Philadelphia. Others have expressed an interest in the pilot.

Executives estimate the trading volume between any two of the six corporations at as much as $5 million each month.

Under most of the agreements, money will be available to the receiving corporation as it has been under the paper check system. After participants are comfortable with the system, however, float terms may be adjusted.

While work on the electronic payment system is conducted under the general auspices of the Chemical Industry Payments Group, payment agreements between any two companies are negotiated independently.

"Basically what it comes down to is allowing each corporation to decide how it wants to make payments," said Thomas Tabor, assistant manager-global treasury operations at PPG Industries. "It's an approach that will allow us to make (the system) as broad as possible as quickly as possible."

Initially, PPG Industries, Union Carbide and Dow Chemical will send and receive payments electronically through the automated clearinghouse using the corporate trade payment, or CTP, format.

"The long-term solution that PPG Industries perceives is that we will be providing an ANSI X-12 payment to the banks that would then be translated by the bank into the format required by the supplier," said Mr. Tabor.

(X-12 is a standard for electronic financial transactions among corporations from the American National Standards Institute. Unlike other National Automated Clearing House Association payment formats, the corporate trade exchange, or CTX, format transmits remittance data in the X-12 standard.)

Jack Potz, manager-cash management at Union Carbide, said his company even-

PPG Industries, Pittsburgh, is participating in a program to pay trading partners electronically.

tually would switch to the CTX format once banks are capable of handling it.

"The current expansion of the NACHA format to CTX is a good compromise between the CTP format and the ANSI X-12," said Mr. Potz.

"From our view, it's the banks that are going to make this (electronic corporate payments) work on a national basis," he said.

Conrad Pritscher, financial manager of banking and planning at Dow Chemical U.S.A., an operating unit of Dow Chemical, agreed. "Right now, (CTX) is useless because not one bank can handle it," he said.

Currently, participants in the pilot program are focusing on establishing electronic payment agreements with each other partly because of the tremendous amount of interaction among the companies.

Roger D. Bailey, manager of global treasury operations at PPG, said high volume and large dollar amounts make the electronic payment systems economically feasible.

He said PPG already has reached an agreement with Dow and is close to finalizing contracts with Union Carbide, Du Pont and Sun Refining.

PPG Industries' transactions, which will begin this month, will be through its bank, Pittsburgh National Bank, Pittsburgh.

Mr. Potz said Union Carbide has active relationships with Dow and Exxon Chemical Co., while the company is close to an agreement with Procter & Gamble and Du Pont, as well as PPG.

Union Carbide, which began exchanging electronic payments with Dow in February 1985, uses Manufacturers Hanover Trust Co. and Irving Trust Co., both in New York, to handle its payments.

Mr. Pritscher said Dow Chemical also has electronic payment agreements with Du Pont, Exxon Chemical, Exxon Co. U.S.A., Xerox Corp. and Sears, Roebuck & Co., and is working on a contract with Sun Refining. Dow uses The Northern Trust Co., Chicago, to handle its electronic payments.

Officials of the other companies could not be reached for comment.

Both PPG Industries and Union Carbide plan to incorporate as many other companies into their electronic payment systems as possible.

Mr. Bailey said company executives hope to eventually

Continued on page 30

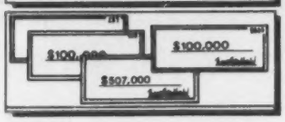
Payden & Rygel index of short maturity assets*
(for month ended April 30)

	April 1987	Quarter ended 3/31/87	Year to date	12 months ended 4/30/87	Yield level monthly change*
	Unannualized total returns				
90-day					
U.S. Treasury bill	0.4944	1.4350	1.9375	6.0565	– 8
Domestic CD	0.4377	1.5125	1.9557	6.3325	53
Euro $ CD	0.4405	1.4925	1.9403	6.4437	60
180-day					
U.S. Treasury bill	0.4036	1.3950	1.8052	6.1795	22
Domestic CD	0.2142	1.3875	1.6041	6.0379	74
Euro $ CD	0.2522	1.3075	1.5622	6.1232	70
1-year					
U.S. Treasury note	0.0954	1.2850	1.3824	6.1586	47
2-year					
U.S. Treasury note	– 0.9515	1.2275	0.2648	5.6377	84

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. 90- and 180-day Treasury bill yield level changes on discount basis.
[a]Basis points.
Source: Payden & Rygel, Los Angeles

Workstation added

Cash accounts



MILWAUKEE — A.O. Smith Corp., in separate projects, is installing a treasury workstation and is undertaking a study of its disbursement system, said Stephen J. Rothe, cash manager.

The company bought the treasury workstation from MH Financial Management Systems Inc., Chicago.

In addition, Smith hired NCNB National Bank, Charlotte, N.C., to conduct the disbursement study.

Mr. Rothe noted First Tennessee Bank, Memphis, now handles the company's controlled disbursement from its Johnson City, Tenn., branch.

"We wanted someone a little bit objective," he added, referring to NCNB. He said NCNB doesn't provide any such service for the company.

The company has used First Tennessee for controlled disbursement for several years, he said.

Mr. Rothe said the MH workstation will enable the company to save more than $10,000 annually by dropping intermediary services that gather reports from its nine banks. Smith has been using Manufacturers Hanover Trust Co., New York, and M&I Marshall & Ilsley Bank, Milwaukee, for the reporting, he added.

The workstations will automatically gather the information.

Smith could have gathered the data directly without the workstation or intermediary services, but that would have been too time consuming and costly, he added.

He said Smith chose MH for the workstation because "they have a large number of systems (in the market) and a solid history of treasury workstations. We feel they will be there in the long run."

He expects MH, a unit of Manufacturers Hanover Trust Co., New York, to begin installing the treasury workstation in late May.

He doesn't expect the new system to become fully operational for about six months, until he and others in the cash management department learn to use it.

The workstation will replace much of the manual gathering and rekeying of information on the company's daily cash position, including bank balances.

Con-Ed unit hires 4

NEW YORK — A unit of Consolidated Edison Co. of New York hired four investment managers to run corporate cash, according to John Perkins, director-financial services.

The unit, Gramercy Capital Corp., hired Ross Capital Corp., Paramount Capital Group Inc., and M.D. Sass Investors Services Inc., all of New York, and invested in a limited partnership run by George Weiss Associates Inc., Hartford, Conn.

All four run dividend capture programs and were assigned $100 million total, Mr. Perkins said.

Gramercy is a non-regulated financial unit formed in October by Con Ed to invest its excess cash.

Weiss was assigned $40 million, while the other three each received $20 million, he said. Mr. Perkins said Weiss' strategy involves buying utility stocks, while shorting, or selling, a similar utility, or even the same utilities.

The other managers will invest in high-yield common stocks, generally avoiding utilities because of Con Ed's limitation on the amount of utility stocks it may own.

At the same time, the managers will write, or sell, call options on the stocks.

Mr. Perkins said the four managers are the first of what he expects will be several groups of money managers the company will hire to invest $300 million in corporate cash generated by the utility.

Ultimately, he said, the company expects to deploy another $200 million with outside managers in fixed income and stocks. He said it is nearing selection of more managers.

Mr. Perkins said the total amount represents "corporate cash we're holding in reserve for the utility whenever our next building cycle comes around, maybe in another 10 years."

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Payments . . .

Continued from page 27

ences from the national average in price increases. Charges for the eight cash management services surveyed rose in aggregate:

- 5.9% in the mid-Atlantic states;
- 5.8% in the West;
- 5.6% in the Midwest;
- 4.4% in the Northeast, including New York;
- 2.9% in the Southwest, including Texas; and
- 1.8% in the Southeast.

For the eight cash management services, Treasury Strategies found charges rose nationally in the year ended in January:

- 17.8% for account maintenance, including statement charges and Federal Deposit Insurance Corp. premiums, if any;
- 7.2% for cash concentration;
- 6.9% for balance reporting;
- 2.7% for account reconcilement;
- 1.4% for controlled disbursement;
- 4.9% for wholesale lockboxes;
- 3.8% for incoming wire transfer; and
- 4.7% for outgoing wire transfer.

Mr. Carfang said Treasury Strategies surveyed 78 banks, including nearly all of the top 20 money center banks and about 50 of the top 150 regional banks. Only 30 banks were surveyed last year.

The survey, unlike previous surveys, didn't break out differences in pricing between money center and regional banks. "It turned out to be a distinction that was confusing to some people and offensive to some banks that considered themselves money center banks and that we called regional," he said.

Treasury Strategies doesn't disclose price changes of particular banks.

The rise in prices are based on changes in Treasury Strategies bank price index over the past year, as illustrated in the accompanying chart. The index measures the monthly cost of a representative market basket of cash management services to a manufacturing company with $250 million in sales.

A typical company using the eight services would spend on average $8,290 a month, based on the national average. A company using Northeast banks would pay the highest, $10,040, while one using Southeast banks would pay the lowest, $7,160.

Mr. Carfang said this year's aggregate increases, though higher than last year, are still below price jumps earlier in the decade, caused largely by the Monetary Control Act of 1980, when banks began passing on increased fees the Federal Reserve Board charged for cash management services.

The results show corporations "really need to consider the option of paying in fees rather than balances, because balances have gone up quite a bit," he said.

Compensating balances are non-interest bearing deposits corporations maintain at banks.

He attributed the rise in balances to declining interest rates and an attendant drop in the earnings credit rate, an interest rate banks impute on the balances, allowing corporations to offset the cost of cash management services.

The average earnings credit rate fell to 5.46% from 7.1% last year, according to the survey. In 1980, it was 13.6%.

Combining the drop in the earnings credit rate and the rise in bank prices, a typical corporation needed $250 in balances to pay for every $1 in monthly cash management service charges as of January 1987.

By contrast, corporations needed $185 in balances last year. In 1980, when Treasury Strategies began the survey, they needed $100 in balances.

Mr. Carfang said, as a result of the survey, corporate executives should conclude they need to give increasing attention to bank charges.

He suggested the price increase in account maintenance was the highest because "I guess banks have a feeling that it isn't a price-sensitive product. People aren't going to close accounts just because the price goes up 17%. It's not very elastic" in price.

He also noted more banks are charging for FDIC premiums. He said from two-thirds to three-quarters of the banks surveyed assess such charges, often $58 a month for every $1 million a corporation has in balances.

"It's one of those things that has really never been challenged" by corporate cash managers, Mr. Carfang said.

"The FDIC charges banks for insurance based on total ledger balances, irrespective whether those balances are insured," he added. Corporate deposits are essentially uninsured, with the FDIC only covering $100,000.

The FDIC fee assessed by banks on corporations "is another one of those ways of taxing the big guys," he said. "It especially hurts companies that have a lot of checks coming in," such as securities firms.

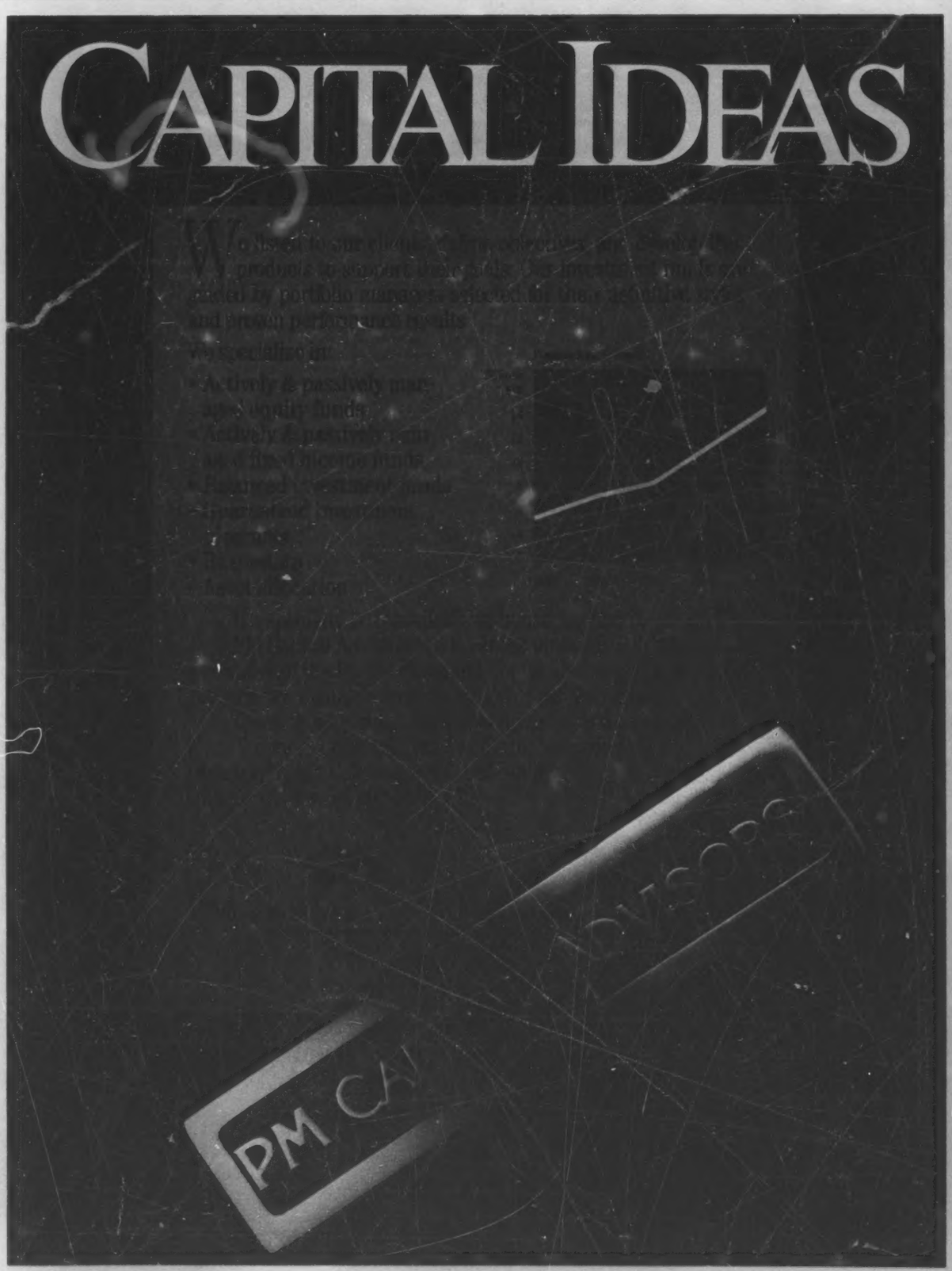
He said the effects of increasing competition among banks is evident in the results that found little increase in controlled disbursement costs.

Such costs "actually declined at several banks," he said. "The market is really competitive for controlled disbursement right now."

He doesn't expect any shakeout, with some banks dropping the services, because of the low cost. "I expect prices to continue to fall," he added. ■

Pensions & Investment Age's regular Datebook section includes a listing of upcoming events in cash management.

If you are sponsoring a conference or meeting focusing on cash management, please send the information to Arline Larson, *Pensions & Investment Age*, 740 N. Rush St., Chicago, Ill. 60611-2590; (312) 649-5407.



Real Estate

Retail bonanza

County plan invests in centers

By Steve Hemmerick

BAKERSFIELD, Calif. — The $340 million Kern County Employees' Retirement Association in Bakersfield, Calif., has invested about 80% of its $20 million real estate allocation in neighborhood shopping centers in California.

Retail investments generally have outperformed other classes of real estate, according to the FRC Property Index. Indeed, Phil Franey, county treasurer, said the fund expects an annual return of between 8% and 9% on the centers.

Its California shopping center purchases include $3.6 million for the 86,500-square-foot Carroll Way shopping center in San Diego; $2.7 million for the 27,890-square-foot Padre Plaza center in San Diego; $3.5 million for the 28,695-square-foot Sunnymead center in Mareno Valley; and $4.7 million for the 105,584-square-foot La Verne center in La Verne.

Kern County entered the real estate market in early 1986. It purchased the La Verne Center in February and the Padre Plaza in January; the rest were purchased during 1986.

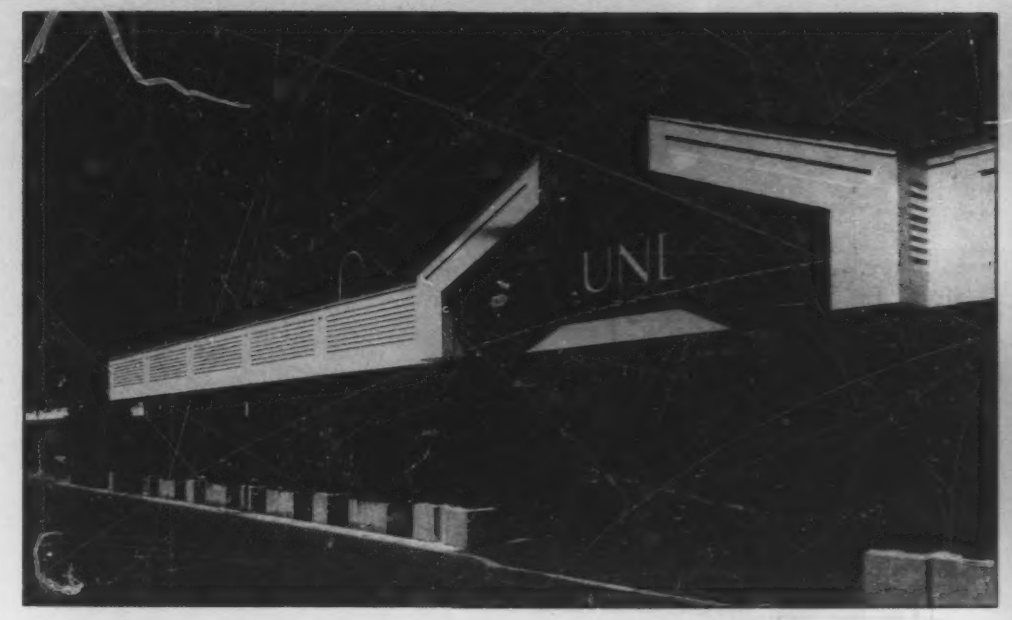
In addition, the fund paid $3.7 million for the 45,789-square-foot Woodrise office building in Bakersfield.

Mr. Franey said the nine-member board prefers to invest in California because it likes an emphasis on in-state investments and because of a uniformity of laws and restrictions regarding real estate properties. But he said it's possible the fund will buy elsewhere in the future.

So far, the fund has invested about $19.2 million of its $20 million allocation, all through its real estate adviser, Trident/Meyer Real Estate Advisors, Anaheim, Calif.

The board has final say on approving equity properties, which are brought to the board after Trident/Meyer staff members do due diligence on the potential investments.

At a future date, Mr. Franey expects the fund will invest further in equity real estate and could add more investments outside the retail area. First, however, the fund probably will do an asset allocation study once a consultant is hired. Finalists are: Callan Associates, San Francisco; SEI Funds Evaluation Services, Wayne, Pa.; and Wilshire Associates, Santa Monica, Calif. Presentations will be made April 22, and a selection is expected next month. ■



Retail properties, such as the Colonial Square shopping center near Minneapolis owned by The RREEF Funds, are drawing the interest of pension fund executives committing new money to real estate.

Pension execs commit to real estate projects

By Steve Hemmerick

Several pension fund executives are making real estate commitments, believing they can find good deals despite many trouble spots.

- The $7.3 billion Virginia Supplemental Retirement System, Richmond, will invest $100 million in joint development projects in Virginia and another $100 million in projects elsewhere.
- The $265 million pension fund of Maytag Co., Newton, Iowa; the $100 million pension fund of Clorox Co., Oakland, Calif.; and the $730 million endowment of the Massachusetts Institute of Technology, Cambridge, have allocated undisclosed amounts to the RREEF MidAmerica/East-V closed-end real estate fund, managed by The RREEF Funds, San Francisco.
- The $488 million Colorado Fire & Police Pension Association, Denver, purchased, at an undisclosed price, an office building sold by a liquidated RREEF fund, and a strip retail center in Aurora, Colo., also at an undisclosed price. Both purchases were made through Mellon Real Estate Investment Management Corp., New York, which advises the system on direct real estate investments.

In Virginia, the joint development projects haven't been selected yet, but a requirement for investment will be that partners put up $1 of their own money for each $1 the pension fund invests.

That will be an incentive to achieve top returns, said Tom Hassard, investment officer-real estate, for the Virginia fund.

He said the fund is negotiating with one insurance company, but he declined to identify the company or discuss the project. Mr. Hassard said other pension executives have put together similar deals where partners put up an equal share of money, and Virginia officials believe such an approach should be effective.

The $125 million RREEF fund will invest during the next 18 to 24 months in shopping centers, industrial properties and office buildings.

Like previous MidAmerica/East funds, it will invest in all-cash transactions in substantially leased, well-located properties costing up to about $15 million.

In Denver, Johnnie Rogers, deputy executive director of the Colorado Fire & Police fund, said the office building the fund bought from RREEF is a 31,000-square-foot V-shaped building. The purchase includes 110,000 square feet in development rights. The building and development rights are in the Denver Tech Center, a big development project in the

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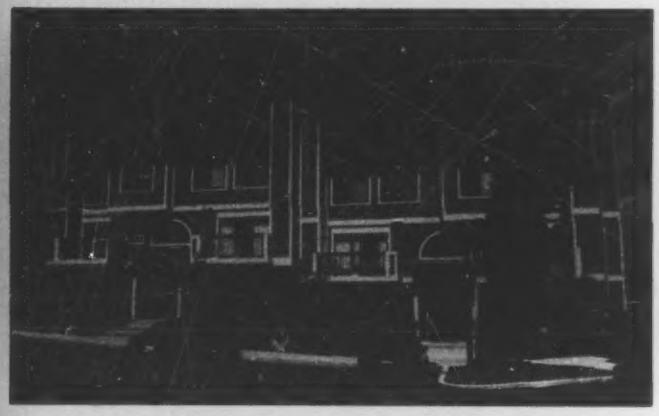

First Chicago's Fund F is moving into retail and apartment properties such as the Bethesda Hill complex in Bethesda, Md.

First Chicago fund takes on new focus

By John Covaleski

CHICAGO — After sustaining $34 million in asset withdrawals last year, a restructuring of property holdings in First Chicago Investment Advisors' Fund F is resulting in votes of confidence from some clients.

As of March 31, the open-end fund had $662 million in gross assets — the market value of the properties and the cash held in the account.

Charles A. Perlik, co-chairman of the $10 million Newspaper Guild International Pension Fund, Washington, and Jeff Molitor, manager of pension assets at the $1.1 billion Standard Oil Co. fund, Cleveland, each said they are encouraged by a restructuring under way in Fund F.

First Chicago is shifting the fund's allocation away from offices and into retail and apartment properties.

Mr. Perlik said the Newspaper Guild's pension fund board will meet soon to review its about $2 million investment in Fund F. He added the restructuring "will be the inducement that will make us stay."

He said fund officials have been "very disappointed" with Fund F, noting its 5.2% return for calendar year 1986 compares to 15.9% returned by the pension fund's overall investments last year.

The Guild fund also has about $2 million invested in a balanced account managed by NWQ Investment Management Co., Los Angeles, and the remainder in guaranteed investment contracts, Mr. Perlik said.

Mr. Molitor at Standard Oil said he's not overly concerned about Fund F's 1986 return rate noting, "it was a dismal year all

Continued on page 41

Returns in index vary by region

By Steve Hemmerick

Office building returns were up in the East and down in the South — with a gap of almost 15 percentage points — during 1986, the FRC Property Index shows.

The index reported a return of 11.6% for office properties in the East, where construction has been moderate and the economy, relatively healthy, vs. a −3.2% for those in the South, which has suffered from an office building spree in some areas coupled with a depressed oil economy. One-

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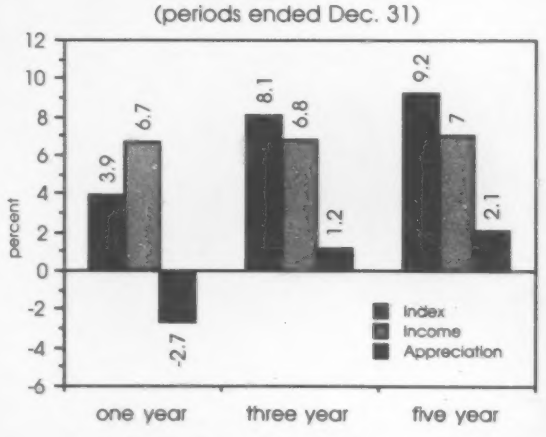


Source: National Council of Real Estate Investment Fiduciaries and the Frank Russell Co., Tacoma, Wash.

Office vacancy rate is steady at 21.5%

By Steve Hemmerick

LOS ANGELES — The office vacancy rate has held steady at 21.5% in major American metropolitan areas for the three quarters ended March 31, according to the Coldwell Banker Office Vacancy Index.

This leveling off of vacancy rates, after about three years of increases, could mean rates have hit or are approaching a peak in metropolitan areas, at least in the short term, said Gregg Gotthard, a real estate analyst with Coldwell Banker in Los Angeles.

But the leveling most likely will remain only if the economy stays strong, Mr. Gotthard said.

The nine months of steady rates is the result of declining vacancies in downtown areas and increasing vacancies in the suburbs.

The downtown office vacancy rate reached a peak at 16.8% June 30. By March 31, the downtown vacancy level fell to 16.3%.

A 5% vacancy rate for offices is considered optimal. That last occurred Dec. 31, 1981, when the office vacancy rate was 4.8%. The suburban vacancy rate increased to 23.9% as of March 31, from 23.8% Dec. 31 and 23.3% June 30.

For the quarter ended March 31, vacancy levels increased 5.4 percentage points in Oklahoma City, which now has the highest vacancy rate of all downtown areas at 32.2%.

San Diego had the largest decrease in vacancy rates for the quarter, down 2.8 percentage points to 14.2%.

The suburban area of Atlanta reported the largest increase in vacancy rates as of March 31 to 21.7%, up 2.5 percentage points from the previous quarter. The largest decrease in suburban office vacancy occurred in suburban San Antonio, Texas, down 2.2 percentage points to 29.7%.

Deregulation of banks and thrifts, the interest of foreign investors and domestic pension fund officials' willingness to support new developments have made the market harder to predict.

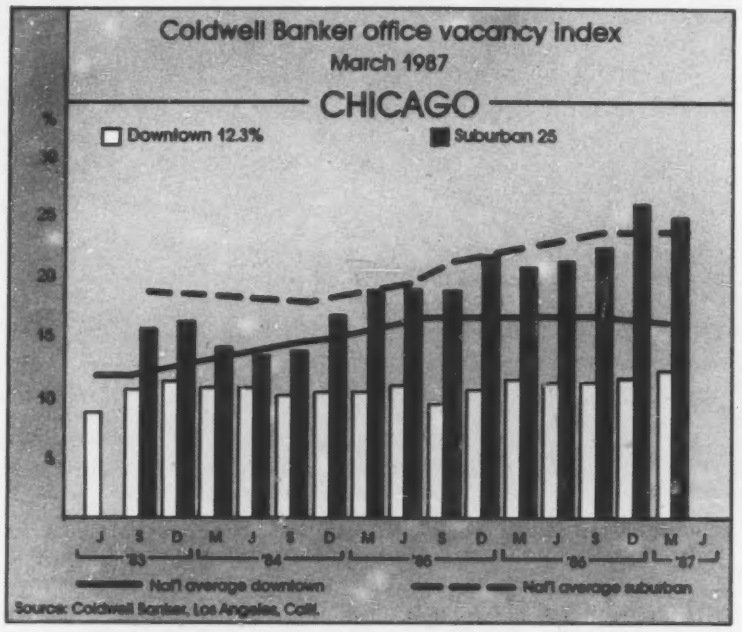
But Mr. Gotthard noted construction in suburban areas has gradually fallen to about 60 million square feet from 90 million square feet in 1985. If absorption levels — or tenant demand for space — remain steady, the suburban office vacancy rate could decline.

Predictions about downtown development are complicated by the five- to eight-year building time because of restrictions during the planning and environmental approval processes.

Some developers, figuring at current absorption levels there is only a two-year demand for downtown office space, could begin building again, causing vacancy rates to rise.

Most of the weakness in the office market has been the result of the supply of space and not the strength of the economy, said Randall C. Zisler, a vice president with Goldman, Sachs & Co., New York.

Though he didn't think office vacancy problems have hit "bottom," he said, "I think we are getting close to it. You are starting to see an increase in absorption, which has prevented the vacancy rate from rising much further." ■



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April 1987

Returns in . . .

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year office property returns were 6.6% in the Midwest and −0.9% in the West.

(The FRC Property Index monitors performance of $11.2 billion in unleveraged commercial properties managed by real estate advisers who are members of the National Council of Real Estate Investment Fiduciaries. The index, calculated by the Frank Russell Co., Tacoma, Wash., divides the country into four geographic regions.)

The only sharper regional differences in returns on office buildings occurred in 1978, 1979 and 1980 between the East and Midwest regions, but in those cases all investment returns were positive.

In 1980, the sharpest regional difference — 33 points — separated the returns of office buildings in the tight Eastern market, which scored to a 41.2% return, and the Midwest, which had an 8.1% return.

Since then, regional differences had been narrowing.

Because of the large number of office properties in the South and West, the overall index return for office buildings for calendar 1986 was 3.9%, vs. 8.3% a year earlier.

Many real estate advisers reported earlier in the year that they were doing some sharp re-evaluations of property values, and those re-evaluations seem to be reflected in the index numbers.

The downward appreciation was so sharp that 1986 was the first year in the index's nine-year history that office buildings in the aggregate showed a decrease in property values.

In fact, the devaluation of office properties was responsible for dragging down the index's overall return of 6.3% for all property types last year. The income return during 1986 was 7%, but the total return for the year fell lower because of a −0.7% in appreciation.

Retail properties across the country scored a 11.2% return in 1986, nearly double the overall return. The 1985 return for retail properties was 11.3%.

Part of the reason office buildings have such an impact on return is that 50.4% of the total market value of the properties in the index are offices.

Retail properties reflect only 18.8% of the market value of the index. The East produced the highest retail returns, 16.7%, followed by 11.9% in the Midwest, 10.6% in the West and 9.6% in the South.

According to W. Richard Russell, a senior vice president with Equitable Real Estate Investment Management Inc., New York, regional and super regional malls are the most preferred retail property types because they tend to respond well to inflationary and deflationary periods.

Industrial properties registered an 8.1% overall return in 1986 — 11.8% in the East, 10.1% in the Midwest, 8.2% in the West and 4.8% in the South. The 1985 return was 11.5%.

During the year, warehouse industrial properties outperformed office research and development properties by 140 basis points.

Despite the better performance of retail and industrial properties, the overall index's returns are expected to lag until office properties pick up.

"The question is, 'How long will those (office leasing) markets remain weak?' Our expectation . . . is that the nation as a whole will have weak leasing markets for a substantial number of quarters, certainly for the next couple of years," said Randall C. Zisler, a vice president in the real estate research department at Goldman, Sachs & Co., New York.

He noted the situation isn't all bleak: The Northeast and certain classes of properties, such as retail, have done well.

Also, he said, large properties with high-quality tenants — such as trophy office buildings — have shown appreciation in value, even in weaker markets.

"What is interesting is that practically all property types have done well in the Northeast. The reason for that is that in the Northeast during the last seven years, there has been relatively less construction there on a per capita basis and/or in relationship to the existing inventory of space," said Mr. Zisler.

Also, he said, the rate of growth in the economy in the Northeast has been strong, and the region has outperformed all others in return on investment for properties.

On the subject of appreciation, Mr. Zisler said, "I would expect that for the remainder of the year, the index is going to be showing no appreciation or negative appreciation."

But over the long term, real estate offers risk-return characteristics that have a low correlation with those of stocks and bonds. Consequently, real estate reduces the risk of the pension or other portfolio and smooths returns, he said.

He warned, however, that investors have to property pickers, not market pickers. ■

Geographic asset allocation of non-U.S. portfolios

	InterSec median portfolio		EAFE	
Country region	1st qtr. '87	4th qtr. '86	1st qtr. '87	4th qtr. '86
Japan	34.3%	36.1%	57 %	53.9%
Other Pacific Basin	10	8.4	4.8	4.8
United Kingdom	18.5	10.5	14.1	13.2
Continental Europe	30.6	38.1	23.9	27.9
Other	1.6	0.1	NA	NA
U.S. cash	1.4	1.6	NA	NA

Source: InterSec Research Corp., Stamford, Conn.

U.K. benefits . . .

Continued from page 3

ter, but as the Pacific Basin was being reduced little by little, money was moved to Europe," which is relatively undervalued, said Sawada Haru, vice president. At the end of the first quarter, Europe represented 46%, of which 19% was in the United Kingdom.

The firm is not reducing its 46% Japan exposure (as of the end of the first quarter). "We can find good value across the board — even in financial and construction sectors — even though the overall market seems to be high. The Japanese market still has upside protection. We look at other valuations besides (price-earnings ratios); p/e is an important one, but that's not the only one in judging a country or market," he said. Nomura runs $800 million for tax-exempt clients.

Simms Capital Management Ltd., New York, isn't reducing Japanese exposure further, either. Japan now represents 30.8% vs. 34% at the end of last year. "We reduced it and are happy with the companies we own," said Arthur Williams III, partner.

The firm runs $500 million in global and international assets, of which $40 million is for U.S. tax-exempt clients.

"We think that commodities on a worldwide basis priced in dollars are very cheap for yen and deutsche mark investors and businesses buying commodities for their operations. There's room for these things to jump in price," he added.

Exposure to West Germany varies widely. Schroder scaled back to 10% March 31 from 16% at the end of last year because the German government failed to stimulate its economy.

"We were greatly disappointed the German government did not boost domestic demand the way world leaders urged them to do. Given their unremitting intransigence, we expected the German economy to be weaker," Mr. Foulkes said.

"Japan's government has at least muttered about stimulating the economy, proposing measures."

Kemper-Johnstone, on the other hand, remains overweighted in Germany vs. the index at 11.1% as of March 31 vs. 14.3% at the end of December. ■

Exposure cut . . .

Continued from page 3

Flying the extra mile has paid off, even though the fund's contrarian strategy leads it far from the mainstream large-capitalization stocks that dominate the Morgan Stanley Capital International Europe Australia Far East index.

In mid-1986, after investing 80% in Japan and 20% in Hong Kong for its six years in international equities, it began moving to its current 16% in Europe, 64% in Japan and 20% in Hong Kong.

In the five years ended Dec. 31, Cleveland-Cliffs' international portfolio tied the top international fund manager in Pensions & Investments' Performance Evaluation Report, earning a compound annualized 30.8%, compared with the EAFE's 28.8%.

For the three years, the fund earned a compound annualized 36.9%, compared with the EAFE's 42.2%. The top PIPER manager for the same period returned an annualized 44.3%.

In 1986, with the dramatic mid-year shift in asset mix, the fund returned 65.5% vs. the EAFE's 70%, and the top-ranking PIPER fund's 97.7%.

"(Our investments) are generally out-of-the-way-type vehicles that bigger funds couldn't make a meaningful dent into," said Mr. McMillan.

"We go where the hunting grounds are best, internal rates of return are highest and the whole cultural and political structure is cooperative, not antagonistic to business."

That's why "we toyed with Australia and turned it down at the very beginning because we didn't feel the business climate was favorable," Mr. McMillan said.

His team then focuses on individual sectors where internal rates of return are highest. Japan's sectors are not among them now to the extent they were in the past.

But stocks in small-company sectors were more undervalued by the Japanese market during the past six years than they are now.

In the past, "it was our impression Japan underpriced emerging growth stocks relative to the rest of the economy and overpriced mundane stocks.

They value relatively highly the companies we'd value lowly here in the U.S." e.g., automobile and steel companies and fisheries.

The investment approach seeks inefficient pricing in 10 different stock categories from low price-earnings to emerging growth and small capitalization. Each category has different buying criteria.

Greenleaf implements its approach with the broad investment guidance of Nicholas Bratt, managing director of Scudder, Stevens & Clark, New York. "But our portfolio doesn't really resemble theirs. We impose our criteria on his knowledge base," Mr. McMillan said.

Its global trustee is Mitsubishi Bank, subagent of the fund's master trustee, AmeriTrust Co., Cleveland.

Cleveland-Cliffs decided to move its pension management to Greenleaf when Mr. McMillan, who wanted to add several new staff members, realized it would be more cost-efficient to have outside management. As part of the arrangement, Greenleaf hired several of Cleveland-Cliffs' in-house staff members.

Mr. McMillan, although not originally planning to move to Greenleaf, resigned as Cleveland-Cliffs' vice president-finance to avoid a potential conflict of interests over his ownership of shares of MLX Corp., the reorganized McLouth Steel Products Corp., in which Cleveland-Cliffs held a 23% interest. Cleveland-Cliffs is primarily an iron company that services the steel industry.

"We didn't want to lose performance," he said, in explaining the selection of Greenleaf.

"We looked for an outside outfit where we could put our outfit. Only one outfit in Cleveland had the flexibility and investment style and approach we wanted. That was Greenleaf."

Before receiving the Cleveland-Cliffs account, Greenleaf had a relatively small amount under management, which was important to the Cleveland-Cliffs' approach. Also, its investment team was not encumbered by a bureaucracy.

Other advantages were the non-Wall Street staff and the Cleveland location.

"Managers here are not from Wall Street but from industry. That is absolutely critical to having a fresh and different perspective on money management," said Mr. McMillan, a Wall Street investment manager before joining Cleveland-Cliffs.

"We have a strong contrarian streak in our thinking, and a long-term perspective. If you play the quarter-to-quarter game, you're always trying to outguess the next guy and I can't do that. Wall Street tends to penalize a company whose current earnings are below normalized earnings (average earnings over a 10-year period). The psychology behind inefficient pricing is an immense herd instinct," he said.

Wall Street hardly considers that some companies have cyclical earnings, he noted.

One such company held by Cleveland-Cliffs' pension fund, **Dow Chemical Co.**, had subnormal earnings from 1977 to 1983 but is now at normal to higher earnings. ■

Executives warned . . .

Continued from page 1

the corporation the authority to vote the proxies.

Without such authority, "both are liable," he said.

Morton Klevan, director of policy development and evaluation for the Pension and Welfare Benefits Administration, went even further: "If a plan sponsor feels strongly about proxy voting, it appears that the worst thing he could do, from a legal point of view, is direct the proxy voting of his investment manager," he said.

Speaking at a conference at the Boston University School of Law, Mr. Klevan outlined the risks and duties of pension and trust fiduciaries as corporate shareholders. He was speaking as an individual, not as a representative of the Labor Department.

If the chief financial officer or chief executive officer reserved the vote for himself in the plan document by deeming himself a plan trustee, the company could be liable for the day-to-day investment decisions of the plan's outside investment managers, Mr. Klevan said.

But that depends on "whether the courts conclude that the voting of shares of stock managed by an investment manager is an integral part of the investment manager's management of plan assets," Mr. Klevan said.

When directing proxy votes violates the Employee Retirement Income Security Act, all parties involved — including a plan's trustee, investment manager and the executive directing the vote — could be held liable for any resultant losses to the plan, he said.

If a corporate officer directs the pension fund's trustee bank to vote in favor of a proxy proposal, the first questions to ask are whether the plan expressly provides for directed trustees, whether the plan provisions cover direction on these sorts of issues and, if so, is the chief financial officer the person described in the plan as the one to give the direction, Mr. Klevan said.

If the plan document does not designate the chief financial officer or other executive as the one to give the direction, "the directions should be ignored by the trustee," said Mr. Klevan.

If the plan specifies the trustees are to be subject to the direction of the chief financial officer with respect to the voting of proxies on all matters other than routine ones, the trustees then would have to examine the direction to determine whether it violated any provisions of ERISA. If so, the trustee would be duty-bound to ignore the direction, he said.

The chief financial officer cannot validly direct an investment manager to vote the proxies. "There are no provisions in ERISA for directions to investment managers," said Mr. Klevan. An investment manager is not a trustee of assets of a plan, therefore, investment managers cannot be directed, he said.

If a plan document gives the executive the right to vote proxies on all non-routine matters, he could vote the proxies only if he were a duly appointed trustee of the plan, he said.

That's because only trustees or investment managers can dispose of plan assets. (The right to vote has an economic value and would be considered a plan asset, Mr. Klevan said.)

In another scenario, if the trustee bank is also an investment manager, there may be a question as to whether a named fiduciary can appoint an investment manager to manage a particular asset or assets of the plan while reserving the proxy vote to plan trustees.

Morton Klevan believes sponsors should have written guidelines for proxy votes.

"It can be argued both ways but is usually an open question," Mr. Klevan said.

Given the risk of sharing liability with a chief officer who directs proxy votes, and "because investment managers and bank trustees cannot, as a practical matter, prevent gratuitous directions or suggestions as to how to vote proxies," Mr. Klevan advised managers and trustees to have written guidelines for voting on corporate governance issues and to communicate these guidelines to clients prior to engagement.

Mr. Walker, who is widely expected to be named head of the pension unit, replacing Dennis Kass, indicated in a separate interview that the Department of Labor is working closely with the Securities and Exchange Commission in examining the proxy voting activities.

The SEC is responsible for proxy voting and tender offers. The Labor Department's interest in corporate governance issues and proxy voting stems from its oversight of pension and welfare benefit plans and the fiduciaries who vote on behalf of those plans and the plan assets.

The government's efforts come at a time when both agencies have come under fire from shareholder rights groups, big institutional investors and others who say neither department has taken a strong stand on corporate governance issues.

Mr. Walker said the Labor Department is encouraging corporate pension fund executives and investment managers to prepare proxy voting guidelines, and to document voting and the reasoning behind the votes.

In addition, he said the department is considering whether to provide guidance to ease the growing confusion over what a fiduciary's duties on corporate governance are under ERISA.

"It's clear that fiduciary duties aren't well understood," Mr. Walker said.

When the fiduciary is a corporate executive, a potential conflict erupts among the best interests of the company, the best interests of the shareholders and the best interests of the management.

Under ERISA, a fiduciary is mandated to act with the sole interests of the beneficiaries in mind.

The deputy assistant secretary vowed the department would "aggressively prosecute" violators. The SEC has taken the same position.

Shareholder rights' groups and large institutional investors have charged the Labor Department and the SEC have not moved aggressively against the apparent conflict of interest in corporate proxy battles. In particular they have cited this year's letter-writing campaign by chief executives.

They have argued the threat of losing a big client could be enough to make a money manager succumb to pressure from corporate executives.

Corporate executives argue they are just trying to make their views known, and are not trying to unduly influence the manager.

Mr. Walker admitted "some activities are troubling, and the conflicts of interest potential is huge." But he noted there is nothing illegal about a company revoking the voting authority of money managers, so long as the company recognizes it is acting as a fiduciary and carries out those duties in line with the law. ■